PW PREDICTS

Robert S. Reichard, executive editor

Modest price increases expected

It's virtually unanimous. Some price acceleration is unavoidable over the next 6-12 months. But by and large the increases should be manageable—especially in light of the fact that 1984 will be the second year in what is shaping up as a fairly substantial business recovery.

Indeed, look over projections of top PMs, economists, sales executives, and econometric models, and the feeling seems to be that, if things go according to plan, we should be able to avoid the sharp advances that eventually undermined the last two recoveries.

Here in a nutshell is what these sources see ahead:

- **Purchasing managers:** Respondents to a *PW* survey put the average 1984 increase in their procurement costs at around 5%. And only a miniscule 2% see a return to double-digit boosts. Members of the prestigious NAPM Business Survey Committee tell much the same story. The majority (85%) are reconciled to price hikes, but only 3% see them as severe.
- **Economists:** *PW*'s Dr. Louis J. Paradiso puts the 1984 increase in the GNP price deflator at 5%. And Joel Popkin, perhaps the nation's leading econometric price analyst, concurs—adding that primary products, traditionally the fastest rising sector in a recovery, will also show rather restrained advances this time around.
- **The executive suite:** Leading corporations come up with a similarly upbeat 5% advance for the prices of the products they sell—with only metals approaching a 10% inflation rate.
- **Econometric models:** A review of four of the major models points to these 1984 increases: GNP price deflator—4.7%, consumer prices—5.1%, and industrial prices—5.1%.

Comments and analyses by these sources suggest several reasons why 1984 inflation will remain in the tolerable range. These include (1) ample capacity in most industrial sectors, (2) expectations of only modest wage boosts—and even this should be partially offset by a 2-3% increase in worker productivity, (3) another year of relatively stable oil prices, (4) only a modest 3-5% increase in food tabs, and (5) a still-strong dollar, which will enable foreign competition to play a role as a price-rise inhibitor.

These factors won't, of course, preclude some price increases as demamd continues to improve. But the 5%-or-so increase in overall price averages now anticipated is a lot better than the second years of the 1973-74 and 1979-80 recoveries when GNP prices rose 8.8% and 9.3%, respectively.

Copper

Prices remain soft. Producer quotes are hard put to break the 70¢/lb barrier. Signs of easiness are all around, with perhaps the most crucial being the continued rise in exchange stocks (now well over 825,000 tons). Also holding down the market are (1) the up-to-now poor capital equipment demand, which accounts for close to 60% of all U.S. chewup, (2) continued all-out production by Third

Nickel

The nickel market could be poised for a modest recovery.

One reason: Inventories (while still on the high side) are down considerably from year-earlier levels. More important, demand is finally showing some signs of picking up as key capital goods markets slowly begin to recover.

Right now the industry is talking in terms of selling 1.2 billion lb on a Free World basis over the new year. That's a fair-sized 9% jump over the past year's estimated 1.1-billion-lb total which, in turn, was well above 1982's extremely disappointing 975-million-lb level.

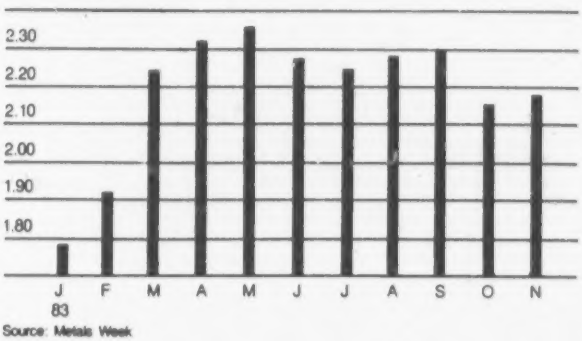
All this, in turn, is bound to firm up prices, which are still close to $1/lb under the official $3.20/lb list (see chart). And while no big spiral is anticipated, it is not inconceivable that the metal could be commanding $2.60-2.70/lb by yearend.

And the uptrend should continue into 1985—enabling producers to finally regain list levels. Reason: The industry feels that 1985 gains could approach the double-digit level as demand for machinery, oil country goods, petrochemical plants, and defense all continue to grow.

On the other hand, the longterm growth rate isn't all that earthshaking—with only a 2-3% annual gain projected over the remainder of the decade.

Nickel prices for 1983 (dealer cathode)

Dollars per pound



Source: Metals Week

PW PREDICTS

Aluminum

CURRENT SITUATION: Ingot has temporarily levelled off in the mid-70s range—some 6¢/lb under the official list. Behind the pause: recent production increases, declining producer inventories, and continued good demand. But the lull does not seem to apply to fabricated items, where new 5% hikes have been posted on common alloy plate, flat sheet, and coiled sheet products. Another sign of firming: **lengthening leads—with waits in some areas stretching to as long as four months.**

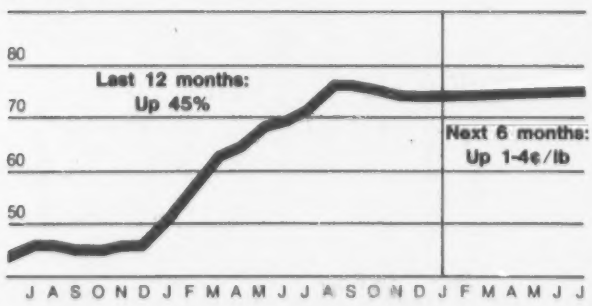
DEMAND: Buying both here and abroad has picked up sharply. U.S. shipments in 1983 reached 6.6 million tons—up 12% from year-earlier levels, **with another gain to near 7 milion tons anticipated for 1984.** And the same is true on a Free World basis where consumption rose a hefty 11% over the past year. All signs point to another 7-8% increase for the new year. **Longterm growth, however, is likely to be more restrained**—in the 2.5-3% range.

SUPPLY: Better overall market balance is likely by late winter or spring as potline reactiviation adds to the available tonnage. And there's more capacity waiting in the wings. **The Free World is still operating at only 83-85% of its potential.** Then, too, there's a still-growing share contributed by recycled metal. **In short, it's still a basically no-sweat situation.**

PRICE OUTLOOK: More boosts are inevitable as demand continues to increase and costs edge higher. But because higher operating rates will put more metal on the market, **the advances are likely to be relatively moderate**—with ingot moving up about 1-4¢/lb over the next six months on both the market and list levels. **By this time next year, the price should be approaching 90¢/lb.** Fabricated products will move up similarly.

Aluminum ingot (market prices)

Cents per pound



World countries, and (3) new competitive inroads by fiber optics and plastics. nor does the new year promise any dramatic change. True, prices may will edge up toward the 80¢/lb level as the new year wears on. But that would harly put the industry back on its feet inasmuch as prices would still be lagging costs.

Muriatic acid

Higher costs for chlorine (just boosted $15/ton), labor, and energy have prompted producers to post a new $5-10/ton increase, bringing quotes into the $65-75/ton range. Firmer demand from steel makes could be another factor in the rise. In any event, these new quotes are a far cry from last year, when sagging demand dropped the 20° grade to as low as $50/ton.

Computers

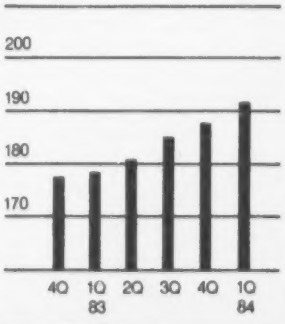
Watch for Taiwan to flood the market with "lookalike" and "fake" copies of IBM's popular personal computer. Some of the models could sell for less than half the IBM price. So warn analysts at International Resource Development. The market-research firm adds that additional clones could be on the way from Hong Kong and Singapore, too.

Electronic parts

The market remains hot as orders continue to tumble in for such key items as semiconductors and microprocessors. In fact, the latter is now reported to be in short supply. Sing of the times: Overall shipments in real or physical terms, which rose 6% in 1983, are targeted for gains of 15% in 1984 and 12% in 1985. not surprisingly, prices are moving up, with averages up about 5% this past year. But capacity, idled by slack demand during the recession, is being put back on line, so prices are likely to rise only about 5-6% over the next 12 months.

Electronic component prices

(Index: 1967 = 100)



Lead

Some nearterm softness can't be ruled out as battery demand drops off seasonally. Also suggestive of possible nearterm weakness are (1) recent low LME quotes, (2) less-than-sensational overall U.S. consumption as tetraethyl lead continues to fall, (3) increasing secondary production sparked by recent summer and early fall price boosts, and (4) low import prices. Indeed, if the current 6-7¢/lb U.S.-LME differential widens

any further, a U.S. price cut may be inevitable. But recovery is likely by late summer as the next battery buying season get under way. Prices at that time will probably rise to near 30¢/lb.

Polyethylene

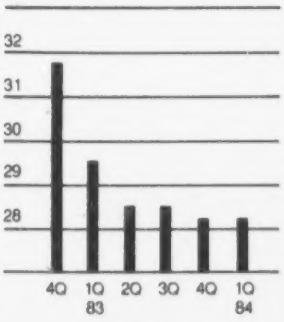
New first-quarter price boosts are being posted on LDPE, LLDPE, and HDPE—some ranging as high as 4¢/lb. This would put LDPE, which has recently been selling at around 44¢/lb, in the high 40s range. Behind the increases: strong demand and a relatively tight supply situation. On the latter score, operating rates are now said to be in the high 90-95% range, with most producers shipping out virtually every pound of the resing they are making. And incoming orders indicate much the same picture for early 1984.

Crude petroleum

Some minor price declines can't be ruled out—despite OPEC's avowed determination to hold the line at the current $29/bbl benchmark level. Some observers feel, for example, that the cartel would have to drop nearterm production to between 16 and 16.5 million barrels per day—off substantially from the current 17.5 million bpd level. Behind the easiness: cheating by OPEC members, increasing non-OPEC supplies, and less-than-anticipated demand recovery. On the latter score, note that current forecasts suggest only a 2.6% increase in U.S. consumption in 1984—only about half the projected GNP gain.

Crude petroleum prices

U.S. refiner cost ($/bbl)



Stainless steel

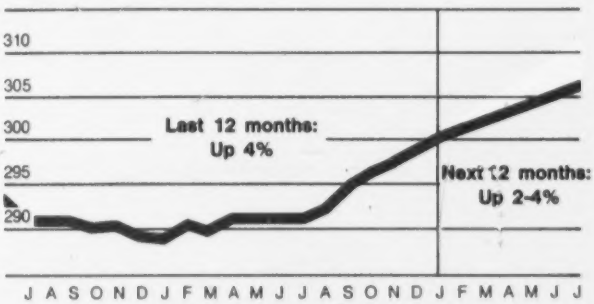
Prices are finally showing signs of firming, mostly in the form of reduced discounts. On the sheet and strip front, for example, the discounts are being cut by about 10 percentage points as demand improves (up nearly 25% in 1983) and leadtimes stretch to as long as 12-14 weeks. Buyers of bar and wire also face higher market prices as producers knock 5-10 percentage points off discounts, which had been ranging as high as 30% on commodity grades. Some attempts are also being made to reduce off-price selling of stainless plate, though the market here remains extremely competitive.

PVC

Demand has slowed, putting price pressure on both the monomer and resin.

Chemicals

Index: 1967 = 100



CURRENT SITUATION: The industry has staged a fairly substantial recovery—with the $180 billion in chemical and allied products clearing the market in 1983 representing a 5% rise over 1982. Production gains have been in the 8-9% range. **On the other hand, prices—because of relatively stable feedstock costs and continued competition—have moved up quite slowly.** Although prices have recently gone up on some products, the overall gain for 1983 was only about 4%.

DEMAND: Right now, all signs point to a solid 6-7% gain over 1983 averages. **But increases will be uneven**—with these advances likely: industrial chemicals (7%), paint (10% or more), plastic resins (8%), drugs, soaps, and toiletries (6%), and agriculture chemicals (4%). Further confirmation comes from chemical producers themselves—with top executives **putting the real sales gain over the next 12 months in the 6% range.**

SUPPLY: Very few problems—despite the gains projected. Operating rates in 1984 may average only 80%—still well under preferred levels, though a fair-sized improvement over the past year's 75% average. Then, too, surveys suggest that capital spending will be up close to 9% over the coming year. To be sure, much of this will be for replacements and installation of nonproduction equipment such as computers. Nevertheless, the gains look to be large enough to keep **buyers in the drivers seat in most major markets.**

PRICE OUTLOOK: Continuing competition indicates relatively modest increases. Also adding to the price restraint will be continued soft petrochemical feedstock quotes, industry cost-cutting, and the improved efficiency indicated by new capital outlays. **It's hard to see 1984 averages rising by much more than 4-5%**—quite modest in view of demand gains and the nation's overall inflation rate.

Pipe grade PVC, which accounts for 40% of total resin volume, recently dropped to as low as 27.5¢/lb—some 10¢/lb under recent summer highs. True, a new attempt is being made to at least partially recoup the loss, with a new 2¢/lb boost posted for this month. But chances of it holding are only about 50-50. Adding to the downward pressure is the recent opening of a new 300-million-lb plant and the reactivation of a 200-million-lb plant. Upshot: Even if you factor in a good 1984 (some 6.6 billion lb), that would still leave demand considerably under the estimated 8.3-billion-lb capacity level.

Paper

Factor in higher prices for most paper products over the next 6-12 months.

Indeed, prices in both corrugated and fine paper markets have already moved up significantly in recent weeks. In the latter sphere, for example, most grades have just gone up about 6%—though trade discounts may be pulling this average down a bit.

In addition, all signs point to more of the same in 1984. Reason: strong demand (up 6% for paper this past year and an even larger 8-9% in paperboard). And this demand trend is likely to continue, with the industry now predicting 6-7% gains in both paper and board for the new year. This, in turn, should push operating rates above the already high mid-90s.

On the other hand, no real squeeze is anticipated; the industry prefers to operate at close to its full potential. Then, too, there are more—albeit relatively small—capacity increments coming onstream. As the chart suggests, paper and board potential should be riding 1.5% a year through 1986 (and 2.8% if you zero in on printing and writing grades). Thus, any major price runup should be prevented.

Another factor is improved cost performance. (Unit labor costs—thanks to a big productivity jump—actually dropped in 1983).

Best bet for the industry as a whole: a 1984 price boost of about 4-6%.

Paper & paperboard capacity gains
Average annual percent increase

	Last 15 years	Next 3 years
Newsprint	4.2	1.3
Printing & writing	3.1	2.8
Packaging & industrial conv.	0.6	-0.7
Tissue	2.5	2.3
Unbleached kraft board	3.3	1.4
Solid bleached board	1.4	1.2
Semichemical board	2.4	0.6
Recycled board	0.2	0.9

Zinc

Markets are marking time following recent price boosts. But the basic prognosis remains moderately bullish. One reason: The long slide in auto die cast parts seems over, with the figure stabilizing at near 23 lb per vehicle. Add in good galvanized demand, and this past year's U.S. consumption jumped a high 8-10%. And further advances both here and abroad are likely in 1984, with Free World consumption rising 5-6%. But there should be enough to go around as production also rises another 6%. This rough balance, in turn, suggests relatively modest price boosts. Quotes over the next 12 months should average in the low 50s range.

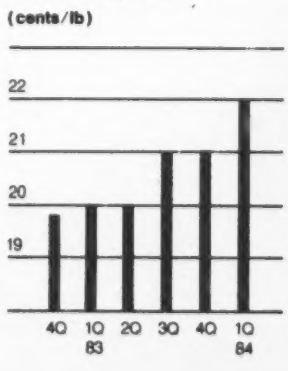
Phenol

Prices are firming. One producer has announced a 2¢/lb boost in lists (to 37.5¢/lb). Blame it on cost-push pressures. The demand outlook is also improving, with gains ranging as high as 11-12% projected for the upcoming year as housing continues to take additional supplies of this key chemical. Then, too, supplies have recently tightened, and large quantities are extremely hard to locate. This snugness, in turn, suggests that buyers may have to meet some of their needs overseas—in Western Europe, which has an excess, and in Japan, where a big, new facility has just come onstream.

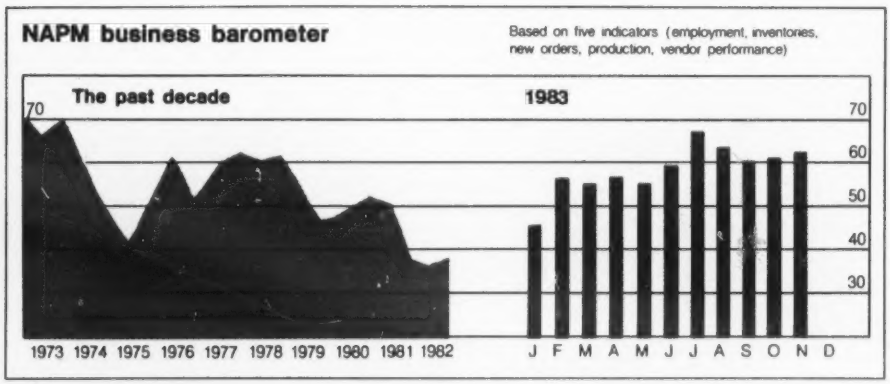
Ethylene

Brace for new first-quarter price-boosting attempts following the failure of a fourth-quarter increase to hold. Producers are asking anywhere from 0.5 to 1.5¢/lb more for this key petrochemical building block, which would bring the going market price up to near 22¢/lb. But that would still be well under lists, which currently run in the 26-27¢/lb range. Demand would seem to suggest that the new increases will stick, as operating rates rise and the industry confidently looks for a substantial 5-8% increase in 1984 sales. But there is a powerful negative offset, too—namely, low propane and ethane feedstock costs, wich have actually dropped in recent months.

Ethylene prices



BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1983
70
60
50
40
30
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Leading indicators look good

The new year is getting off to a good start—with the next few months looking just as good as the last few months.

Certainly that's the picture now being spelled out by all the leading indicators. The NAPM Business Barometer (a time-tested yardstick of business activity a few months down the pike), for example, is still solidly in the plus column. The latest reading here is 62.9—actually above the previous month and nearly 13 points above the neutral 50 mark.

There are no real imbalances to speak of either. While inventories are on the rise, they're barely keeping up with accelerating production and sales. Not surprisingly, the factory stock/sales ratio is now being clocked in at 1.48—pretty close to the record low of 1.46 hit back in September.

In any event, this crucial ratio is low enough to assure that any further increases in final demand will be quickly translated into new output increases.

Also pointing to more gains ahead is the fact that factory orders have been outpacing shipments. The point to keep in mind here: The resulting backing of unfilled orders represents more than 3.5 months of production.

The fact that interest rates haven't moved up—despite the recent sharp business recovery—has to be regarded as yet another good omen. It indicates the Fed is not all that concerned about inflation—and hence should be providing enough money to keep the recovery going for at least another 6 months.

Consumers, too, remain in a spending mood—helping to make the just-passed holiday season the best on record. The bullishness also shows up in buying plans which have been on a relatively high plateau since last summer (see chart alongside).

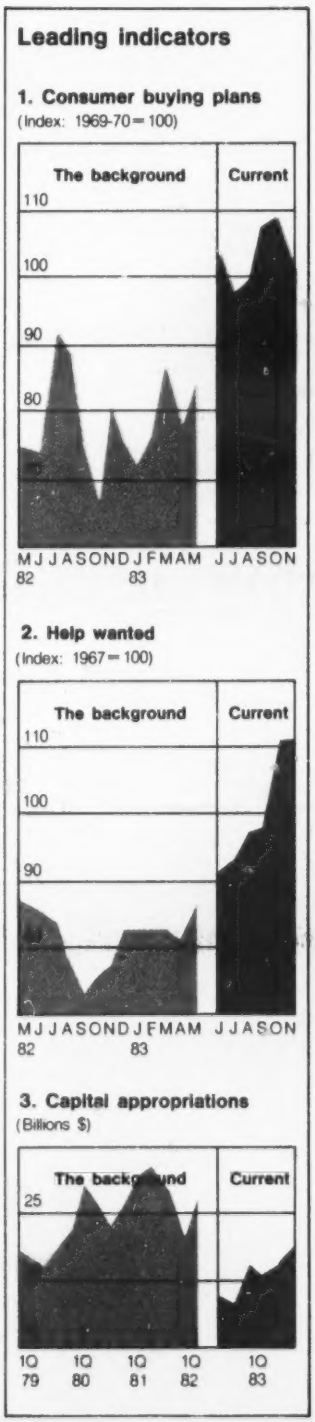
About the only thing that has come down a bit are intentions to buy autos—where 8.2% now intend to buy a new car versus the 9.0% who said so a few months earlier.

But the latter should be regarded as a temporary aberration; spendable income and jobs are up and unemployment is down. During one recent 4-month period industrial jobs rose by an eye-opening 1.3 million.

Capacity utilization still climbing

Factory utilization rates continue to climb—but still have a way to go before reaching preferred levels—at least as far as overall U.S. industry is concerned.

The gains over the past



year are detailed in the accompanying chart. Note that metals (both steel and nonferrous) have shown some of the biggest 12-month jumps. But no one would even begin to suggest that these "smokestack" industries are booming—for their declines in both 1981 and 1982 were far greater than recent gains.

The auto industry, too, has jumped significantly over the past year—but again from very low rates. Note, for example, that the current reading is still under 80%—with foreign competition virtually ruling out any return to the 1978 peak of near 90%.

Nevertheless, the all-industry rise of the last year has been a solid 10 percentage points—and could be one reason why manufacturers are dusting off long-postponed expansion plans. Another reason for increasing interest in capital outlays could be that current higher operating rates are translating into higher profits and, hence, are making more money available for plant and equipment purchases.

But there seems to be little urgency in such expansion. True, there are two sectors where production bottlenecks have appeared—electronics and paper. But electronic firms are now busy reactivating previously shutdown facilities and the paper industry (now near the 95% level) could easily operate at 100% over a short period of time.

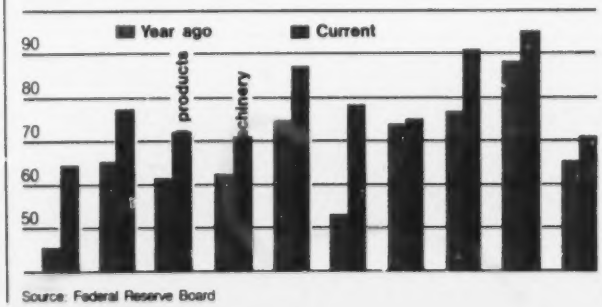
Also suggesting a relatively no-sweat overall capacity situation is the fact that capacity continues to increase. Indeed, even in depressed 1983, the nation's factories managed to add some 2% onto their production potential. And in 1984—with contemplated capital outlay boosts—the figure should easily top 2.5%, and thus help to partially offset production increases.

Import prices dropping slightly

Import prices continue to edge lower—with the latest average overseas quotes running better than 3% under a year ago.

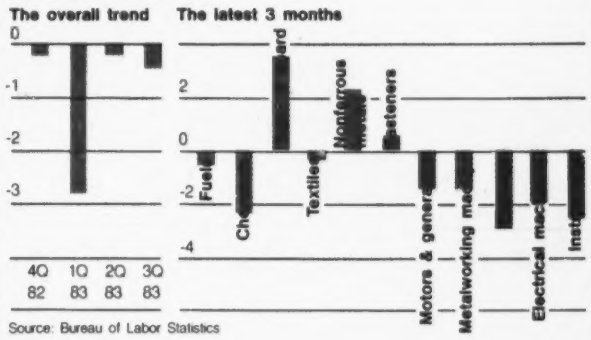
What makes this even more newsworthy is that Uncle Sam's domestic producer price index rose about 2% over the same period of time. Conclusion: a potential savings of 5% on the average purchase mix for those willing to switch to imports.

Industrial operating rates
Percent of capacity



Source: Federal Reserve Board

Import prices
(% change from previous qtr)



Source: Bureau of Labor Statistics

Actually, the reasons behind this import trend aren't too hard to find: (1) a strong dollar which effectively reduces U.S. landed costs, and (2) lagging overseas domestic demands, which have prompted foreign suppliers to offer import bargains in order to keep their own factories operating at tolerably high levels.

To be sure,not all prices have continued to fall over the past few months (see chart for details), and some levelling off in these quotes may be in the offing later in 1984—especially if the dollar weakens as some analysts are predicting.

Here's how Labor Department analysts describe import trends over the past few months:

■ **Fuels and related products:** Prices dropped 0.5%—the seventh consecutive quarterly decline. Natural gas and LNG are off the most—8.4% over the latest 3-month period and 17.9% over the past year.

■ **Machinery and transport products:** New quarterly declines here are reported in specialized machinery (−2.9%), general industry machinery (−2.5%), office machines (−1.4%), and metalworking machinery (−1.5%).

■ **Chemicals:** Prices were off 2.3% over the latest 3-month period. But because of earlier backing and filling, the year-to-year decline was also only off by a bit more than 2%.

CURRENT PRICES

Mixed price patterns reported

The old year has ended on another good note—with overall industrial prices actually slipping a bit. True, the drop was fractional. But it means that average quotes for the 12-month period just ended were less than 2% above year earlier levels.

Much of the respite over the past month can again be traced to soft energy tags. Specifically, declines were noted for home heat-

ing oil, gasoline, diesel fuel, LPG, kerosene, and commercial jet fuel—more than enough to offset scattered increases in natural gas and electric power.

Chemicals also remain on the shakey side. New declines were reported in both organic and inorganic formulations. Both plastic resins and manmade fibers also edged lower over the month—but in these cases, newly posted increases suggest gains again when January figures are released.

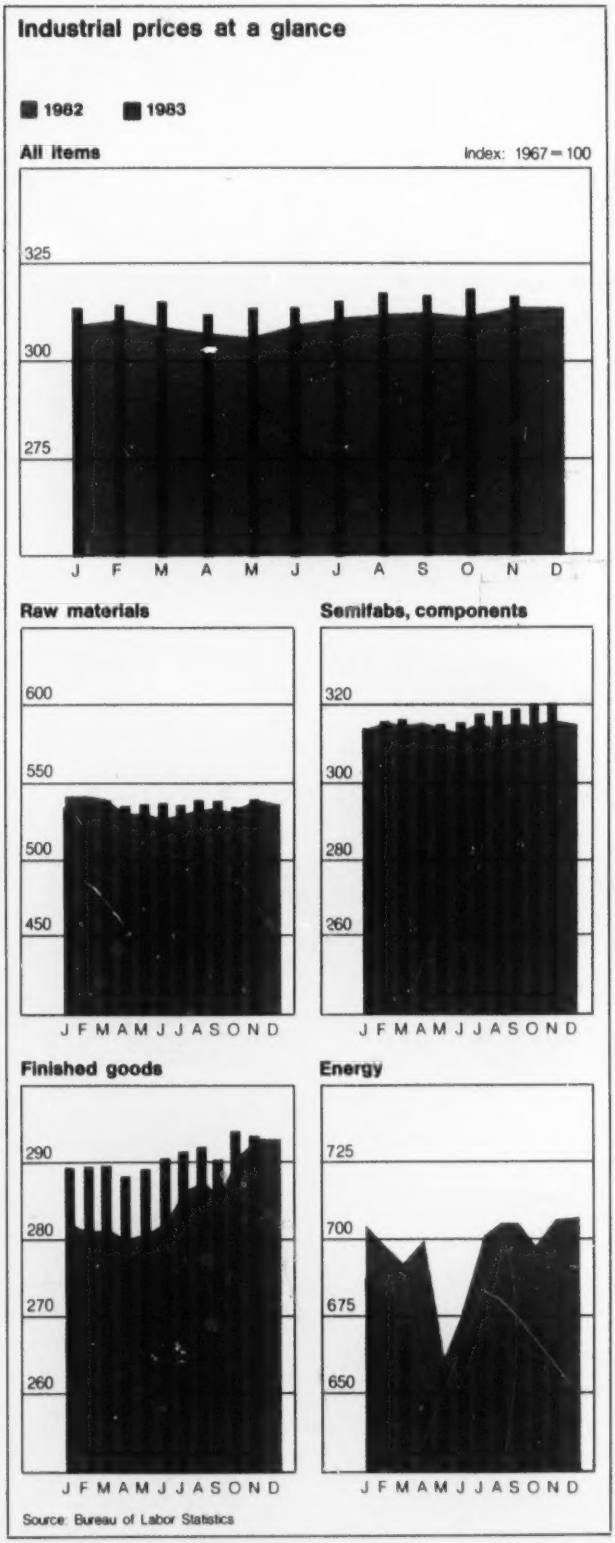
Capital equipment, meantime, shows a more mixed pattern. On the upside were commercial furniture, integrated and measuring instruments, motors and generators, and internal combusion engines. But these were effectively offset by declines in trucks, aircraft, farm machinery, transformers, and switchgear.

On the other hand, there were a few categories that seemed to have definitely

This month's breakdown

	Latest level (Oct)	% change from: Month ago	Year ago
Bearings	331.3	0.4	-0.6
Bolts, nuts, etc.	269.9	1.2	-0.1
Chemicals, inorganic	290.8	-0.5	-5.1
Chemicals, organic	373.2	-0.7	2.7
Concrete products	303.6	0.1	1.8
Corrugated cartons	248.5	1.3	3.7
Cutting tools, small	278.9	0.1	0.8
Electrical instruments	274.8	0.0	9.8
Electric lamps (bulbs)	327.3	0.1	10.3
Electronic components	187.0	0.5	5.9
Fans and blowers	335.8	0.0	-0.2
Foundry and forge products	352.8	0.1	1.9
Fuel oil (residual)	1200.7	0.6	5.4
Furniture, commercial	290.3	0.8	4.2
Gasoline	599.7	-2.1	-2.6
Glass, flat	230.1	0.3	2.1
Glass containers	351.0	0.0	-1.9
Gypsum products	313.9	3.2	23.1
Hand tools	350.4	1.2	1.2
Hand tools, power driven	221.0	0.2	-0.5
Industrial furnaces	368.3	0.4	3.3
Integrating and measuring instruments	224.6	0.4	5.2
Internal combustion engines	342.6	0.5	1.8
Lubricating oil	782.6	0.9	-7.6
Lumber millwork	308.2	0.4	10.0
Material handling equipment	285.8	-0.1	-0.1
Metal containers	338.2	0.0	2.8
Metal mill shapes (nonferrous)	310.7	-1.2	3.2
Metal tanks	305.2	0.0	-1.9
Motors and generators	335.8	0.5	6.9
Motor trucks (10,000 lb and under)	280.9	-0.7	2.5
Office and store equipment	154.8	-0.3	1.4
Paperboard	257.9	0.9	4.2
Paper boxes and shipping containers	251.8	0.7	1.5
Paper office supplies	227.4	0.0	0.3
Paint	264.4	0.1	-0.1
Plastic resins	296.6	-0.3	5.1
Precision measuring tools	244.4	0.1	1.5
Pumps and compressors	345.4	0.1	-0.8
Refractories	354.3	2.5	5.1
Rubber belts and belting	326.9	-1.1	1.9
Scales and balances	228.3	-1.8	0.3
Steel products	355.9	0.3	2.5
Switchgear	269.4	-0.4	1.9
Textiles, synthetic fibers	159.5	-0.6	-1.1
Textiles, gray fabrics	150.2	0.9	5.0
Tires and tubes	242.7	0.0	-4.6
Transformers and power regulators	222.9	-0.6	1.0
Welding equipment	272.5	-0.3	-2.2
Wire and cable	202.9	0.1	2.9

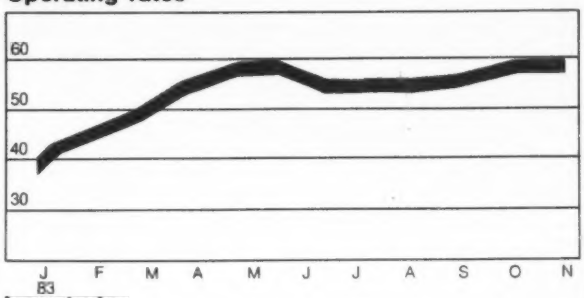
Industrial prices at a glance



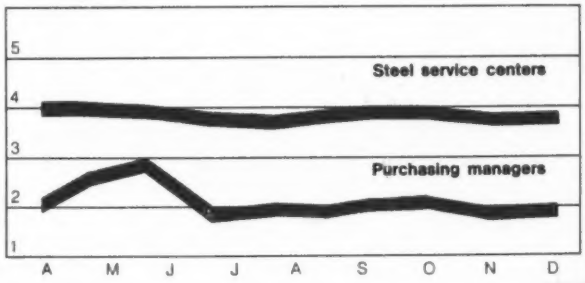
Source: Bureau of Labor Statistics

Steel

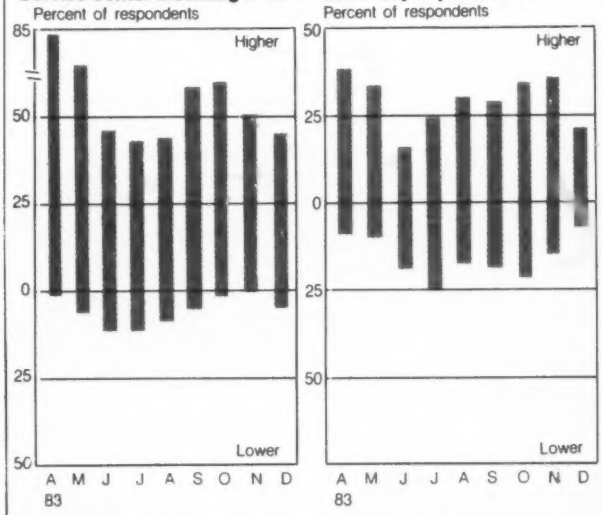
Operating rates



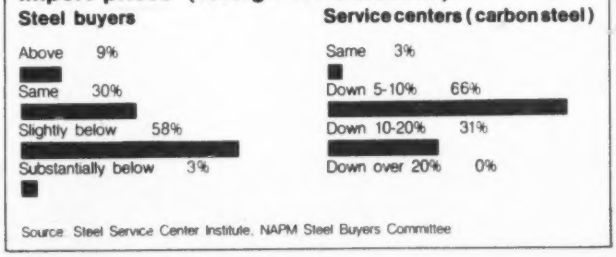
Inventories



Demand (over the next 3 months)



Import prices (foreign vs. domestic)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

moved back into the plus column. Items included here are grey fabrics, paperboard, paper products, and a host of construction materials (including gypsum products, asphalt paving materials, asbestos cement shingles, refractories, and lumber millwork).

Government price officials, queried on the overall nearterm trend, say that some first-quarter acceleration in industrial prices seems likely. But they hasten to add that the increases are not expected to be all that earthshaking—with the aggregate index expected to rise by only about 1% over the next 3 months—or just 4% on an annualized basis.

STEEL SCENE

Optimism in steel markets

Look for more firming in most steel markets—with *PW*'s regular monthly rundown suggesting these bullish demand signs:

- Producers are now talking in terms of a 77-78 million-ton shipment year in 1984—upwards of 10 million tons more than was shipped over the just-ended 12-month period.
- Steel buyers—limiting their forecast span to the next three months—are also on the optimistic side. Some 23% of metal-buying PMs responding to a new NAPM steel survey expect to increase their receipts over this time span—nearly three times as many as the small 8% who plan on reduced steel purchases.
- Steel service centers are even more enthusiastic—with the number of distributors expecting increased orders over the next three months topping those expecting decreases by a better-than-8:1 margin.

The optimism on the part of these warehouses may be part of the reason why Andrew G.Sharkey, the president of the Steel Service Center Institute (SSCI) is projecting another good year. He also points out that "there has been some stirring in the capital goods markets," which he feels may translate into increased business for service centers.

Aiding distributors, adds Sharkey, are the "new realities" of mill-customer relations—including stringent delivery demands as well as the need for close tolerance processing and quality control.

But while demand looks to remain strong, a tight rein is still being kept on steel inventories—both on the service center and buyer levels. Note from the accompanying chart, for example, that months' supply has remained relatively stable at low levels over recent months.

PROCUREMENT STATUS

Longer leads reported

Delivery stretchouts are now the order of the day.

True, these extensions are, for the most part, minor. But they do suggest that closer monitoring and expediting will be needed in the months immediately ahead—especially in such areas as electronics, where demand really seems to have taken off.

The new, tighter trend is perhaps best summarized by *PW*'s exclusive leadtime index, which has moved up to 53 at latest report. That's three points above the neutral 50 mark and the biggest jump in several years.

Even more dramatic are the latest NAPM Business Survey Committee findings on vendor delivery performance. Roughly one out of every three respondents now report some slowdown (the highest such number in nearly 3.5 years)—and only 1% note a speedup (the lowest such number in 5 years).

But as suggested above, very few items (except for selected electronic components) are actually reported as being in extreme short supply. And even here, some relief is anticipated by late spring or summer as demand flattens out a bit and previously shutdown facilities are reactivated.

Another reassuring note: The average factory utilization rate for all manufactured goods is still only in the 80% range—well under levels most of these vendors prefer to operate.

In any event, while the current delays are creating some annoyances, no one seems ready to push the panic button. Thus only about 17% of queried PMs say they're ordering 90 days or more in advance—a number virtually unchanged from the previous two months.

Also attesting to the fact that things are basically under control is the fact that there's apparently very little inventory hedging. True, there are now more people adding to stocks than are paring. But the gap is narrow—and on average the increases are just barely keeping up with increased production activity.

Indeed, if replies from both groups are to be taken at face value, inventory-sales levels may actually decline a bit. Now, 28% of the buyers still consider their steel stocks as being too high (versus not one who feels that they're too low)—with comparable figures on the service center level being 25% too high and only 3% too low.

But interestingly enough, service centers are not planning on any stock reduction—with the 27% contemplating reductions over the next three months completely balanced out by a like percentage figure projecting increases.

One reason for this could be the growing snugness in some product lines. While still few in number, some steel service centers voice scattered concern over cold-rolled sheet and stainless. Interestingly enough, the same products are listed as areas of concern by steel buyers.

Another trend that may be in the making: fewer really good overseas bargains. This is especially true in stainless, where only 22% of the respondents report price breaks of 10% or more—sharply under the 75% high noted just last summer.

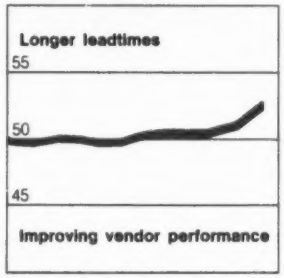
Buyers, who don't split out stainless from carbon steel, tell much the same story. Only 3% now say foreign suppliers are offering steel "substantially under" comparable domestic levels—again well under the 20% peak of last year.

Yet curiously enough, both groups indicate that they may be more dependent on foreign steel in the months ahead. One reason could be the need for bigger tonnages—plus some possible concern about supplies and the need to line up a few extra suppliers.

Monthly procurement status report

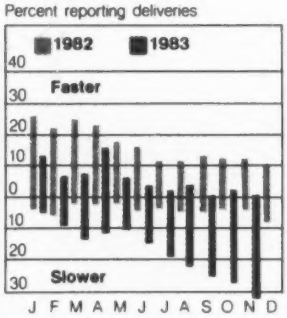
Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance.

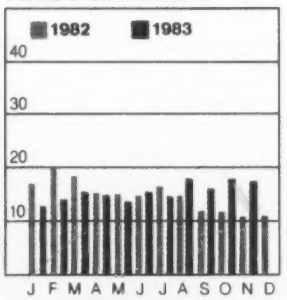


Delivery performance

Percent reporting deliveries

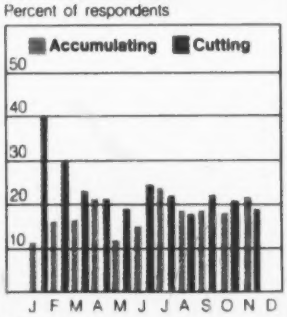


Forward commitments



Inventory strategy

Percent of respondents



Source: NAPM

Leadtimes and availability

Chicago: Electrical supplies have stretched out a week (to 2-3). Ditto, regular motors (to 1-2). And while other MRO items are steady, they, too, could move out another 2-3 weeks. Elsewhere, some semiconductors remain on allocation. Other stretchouts (to these weekly waits): polyethylene (6), and film laminations (8-12).

Cleveland: Extending a bit to these new weekly levels are cold finished aluminum (12), and maintenance paint (2-3). Other typical waits: corrugated (3), 2-ply fiber drums (2), polyethylene and PVC resins (2-3), lumber (3), plastic shrink film (3), alloying materials (on demand), glassine papers (4-5).

Los Angeles: The overall trend is toward modest stretchout—with a sampling suggesting these weekly waits: galvanized steel (10-12), grey iron castings (7-9), brass castings (6-8), insulation material (7), specialty wire (4-6), fasteners (3-5), stainless steel (14), semiconductors (22-32), and printed circuit boards (10).

BUSINESS DATATRAK

Houston A rising rig count suggests some future stretchout in oil field equipment. Other currently unchanged leads (in weeks): mill steel (4), forgings (4-6), chemicals (0-1), MRO supplies (3), electric and electronic components (8), engine parts (0-1), air compressors (4-6), valves and fittings (0-1).

Philadelphia New longer waits for carbide tools (12-14)—with stretchouts anticipated for other tool items, too. Also out are aluminum bar, sheet, and extrusions (4-6), stainless tubing (6-8), with plastic sheet (though unchanged) expected to move out. Coming in are standard taps (4), and standard polishing wheels (2-4).

Pittsburgh: Some extensions in metals—with magnesium out to 6 weeks (but only temporarily) and zinc also out to 6 weeks. Polyethylene and PVC are out a week (to 5). Other waits (unchanged): coil coating paint (4), steel strapping (2-3), corrugated and folding boxes (3-4), and plastic bags (3-4).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	7	7	7
C-R Sheet (Chgo)	10	10	8½
Plate (Phil)	6	6	4½
Plate (Chgo)	3	3	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	4½	4½	4½
H-R Bars (Chgo)	2½	2½	2½
Cold-Drawn Bars (Phil)	4½	4½	4½
Galvanized (LA)	11	11	4
Galvanized (Chgo)	7	7	7
Structurals (Chgo)	2½	2½	2½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	6	6
Grey Iron Castings (LA)	8	6½	12
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	7	7	7
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14	14	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	9	8
ICs (Linear) (Phil)	11	11	11
Motors (Phil)	21	21	21
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10½	10½	7
Relays (Chgo)	15	15	15
Resistors (Chgo)	10	10	10
Resistors, Wirebound (Phil)	9	9	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	2½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	1/5	1/5	1/5
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4½
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Clev)	2½	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Clev)	2½	2½	2
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2½	2½	2
PVC Resin (Pgh)	4	4	4
Titanium Dioxide (LA)	1	1	1

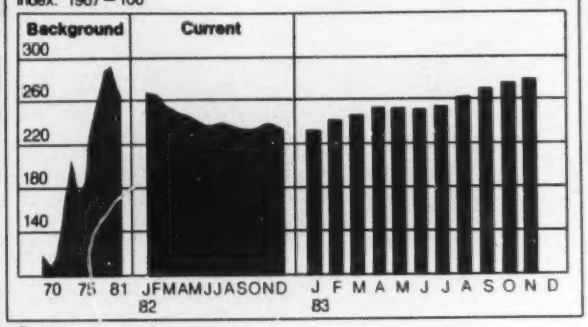
	Now	Month ago	Six months ago
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Clev)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	4	4	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	11
Aluminum Plate (Chgo)	9	9	9
Aluminum Sheet (LA)	4½	4½	5½
Aluminum Sheet (Chgo)	14	14	11
Brass Castings (LA)	7	7	8½
Brass Rods (Chgo)	3½	3½	3½
Brass Sheet (Chgo)	9	8	5½
Brass Tube (Chgo)	9	9	5
Copper Fittings (LA)	5	5	5½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5	5	6½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	6	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	12	12	12
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	52	52	52
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	½	½	½
Fasteners (LA)	4	4	4
Fasteners, Std. (Phil)	2	2	3½
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	30
Heat Exchangers, Hi-pressure (Hous)	21	21	43
Insulation Mat'l. (LA)	7	7	9
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1	1	1
Pumps (Hous)	39	39	41
Pumps (LA)	9	9	10
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	6
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	8	8	8
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month	279.8
Month before	273.4
Year ago	230.4

Index: 1967 = 100



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	347.00	347.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	24.40	24.40	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	17.50	17.50	14.35
Steel, bars, Pitts, cwt.	17.5	17.5	14.35
Steel, bars, C.R., Pitts, cwt.	26.00	26.00	31.00
Steel, plates, Pitts., cwt.	23.25	25.75	24.25
Steel, plates, H.R., Pitts., cwt.	23.25	25.75	24.25
Steel, sheets, C.R., Detroit, cwt.	26.15	26.15	24.65
Steel, strip, C.R., Chi., cwt.	35.30	35.30	29.05
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.750	0.740	0.450
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	4.95	4.95	4.95
Brass, red, 85%, [sheet], lb.	1.22	1.19	1.19
Brass, yellow, [sheet], lb.	1.17	1.14	1.13
Cadmium, ton lots, lb.	1.25	1.25	1.00
Copper, electrolytic, wire bars, refd., lb.	0.68	0.65	0.72
Copper sheet, over 24 in., lb.	1.31	1.28	1.28
Lead, common, N.Y., lb.	0.25	0.25	.205
Magnesium, pig ingot, [99.8%], lb.	1.38	1.38	1.34
Mercury, 20 fl. lots, N.Y., fl.	390.00	378.00	414.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.40
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	9.35	8.92	10.35
Tin, Straights, N.Y., lb.	6.30	6.52	6.13
Zinc, Prime West, East St. Louis, lb.	0.49	0.49	0.38
Zinc, die casting alloy, No. 3, lb.	0.555	0.555	0.465
PAPER			
Uncoated book 13 offset, ton	760.00	760.00	800.00
Watermarked bond, ton	915.00	915.00	845.00
Gummed sealing tape, carton	15.45	15.41	15.70
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	475.00	475.00	475.00
Wrapping paper, std. distribution cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	290.00	290.00	250.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.317	0.289	0.243
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.02	1.02	0.95
Cotton middling, 1", N.Y., lb.	0.716	0.731	0.615
Printcloth, 48", 80x80, N.Y., spot. yd.	0.850	0.855	0.610
Army duck, 37", 13 oz., yd.	1.69	1.69	1.00
Blended printcloth, 64", 78x54, yd.	0.74	0.74	0.65
20s combed yarns	1.70	1.70	1.88
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.43	0.43	0.46
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	195.00	195.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.45	1.47	1.48
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.66
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	0.106	0.106	0.101
Glycerine, synthetic, tanks, lb.	0.730	0.730	0.725
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.450	0.450	0.715
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.310
Polyethylene resin, low density liner film grade (market price), lb.	.420	.380	.275
Polypropylene, homopolymer grade (market price), lb.	0.42	0.40	0.37
Polystyrene, general purpose grade (market price) lb.	0.40	0.40	0.38
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.350	0.350	0.335
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	132.50	132.50	135.00
Sulphuric acid, 66%, commercial, tanks, ton	56.35	56.35	56.85
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.35	1.33	1.45
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	318.25	327.35	292.45
Lumber 2x2, pine, mbf, cl	313.50	324.70	277.50
Plywood, plyform, 3/4", msf, cl	546.35	551.35	551.80
Plywood, 5/8", msf, cl	355.25	366.45	334.25
Cement, bulk, ton, tl	61.88	61.88	62.02
Sand, ton, cl	5.99	5.99	5.88
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	45.64	45.64	45.68
Crushed stone, 1½", ton, cl	8.01	8.00	7.77
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.76	0.76	0.76
Gypsum sheathing, ½"x1"x8", msf, tl	181.57	172.93	156.82
Brick, common, per thousand, tl	171.33	174.35	172.95
Asphalt paving, AC-20	158.71	158.71	156.77
Concrete sewer pipe, 12", prem. joint, per foot, cl	6.80	6.80	6.61
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	24.40	25.25	23.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	30.75	30.50	31.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.820	0.780	0.845
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.770	0.833	0.894
Heating oil, No. 2, Chi., bulk, gal.	0.785	0.828	0.870
Heating oil, No. 2, N.Y., bulk, gal.	0.94	1.03	1.01
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.25	26.25	26.15
Jet kerosene, gal.	0.780	0.815	0.870
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.46	0.49	0.53
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	90.00	85.00	51.00
Steel, No. 1, hvy., dlvd., Chi., ton	83.00	77.00	44.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.605	0.575	0.565
Copper, No. 2, East, wholesale buy, dlvd., lb.	0.510	0.475	0.505
Brass, red, East, wholesale buy, dlvd., lb.	0.565	0.535	0.525
Brass, yellow, East, wholesale buy, dlvd., lb.	0.32	0.33	0.33
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.45	0.45	0.22
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.475	0.475	0.230
Zinc, old, East, wholesale buy, dlvd., lb.	0.190	0.190	0.080
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.15	0.14	0.11
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	25.00	5.00
Paper, old corrug. box, dlr., N.Y., ton	21.00	20.00	4.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.105	0.100	0.130
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.33	0.33	n.a.

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

It appears from estimates of income and purchases that the personal savings rate may increase—but not nearly to this so-called normal level. Best bet for 1984: a rate somewhere around 5.3%. But that rate would still be below the level needed to assure enough money for the financing of prospective business capital programs and housing.

The budget deficit: Concern is widespread that huge federal deficits (current and projected) could abort the recovery—if not in 1984, then sometime shortly thereafter. This view can't be dismissed easily—especially since increases in internal funds generated by businesses may slow down in the latter part of 1984 (at a time business capital spending is expanding). It suggests that private borrowing will be rising at the same time Washington's cash needs are also expanding.

A credit crunch could develop, putting upward pressure on interest rates in late 1984 and early 1985. Or if the Fed eased up, it could mean an accelerated inflation pace. In either case, it would not bode well for the economy. The red ink budget figures are now at astronomical proportions. In fiscal 1983 (on a national income account basis), the deficit is put at $187 billion. And for fiscal 1984 it could rise to nearly $200 billion.

Trade deficit: Deficits are plaguing our international transactions. The U.S. merchandise trade balance fell an additional $23 billion into the red in the past year, reaching $55 billion.

This situation reflects both dwindling exports (off $8 billion in 1983—to only $204 billion) and rising imports (up $15 billion—to $259 billion). Blame it on a strong dollar and the faster-than-rest-of-world U.S. recovery, which has tended to beef up imports and put a lid on exports.

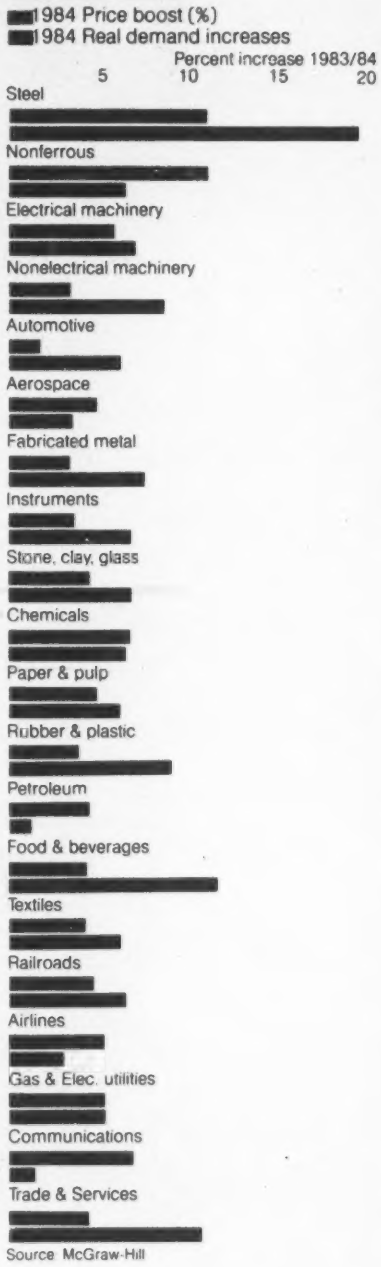
These trends are likely to continue through 1984. The trade deficit may climb to the $70 billion range. Reasons are the same as in 1983: a continuing strong dollar, (2) an expanding U.S. economy, and (3) still-less-than-sensational growth in overseas economies.

Advice to PMs: Despite all of these problems, Paradiso is confident that on balance 1984 will be a good year for most firms. Two notes of caution: (1) the first half will rack up bigger advances than the second half and (2) industry-by-industry gains will be uneven. Forecasting individual demand, supply, and price trends won't be all that easy. Paradiso's advice: "Fine tune current forecasting methodology—with added efforts to break figures down into more meaningful subgroups."

Inventories will bear exceptionally close watching. Stockouts will continue to be a threat. And some further leadtime extensions seem inevitable. On the other hand, high interest rates and some demand deceleration later on in the year will put a premium on keeping stocks as low as possible.

The delicate balancing act implied by these opposing forces puts the emphasis on flexibility. In Paradiso's words: "Update forecasts at least once a quarter—maybe even more often—and be ready to make mid-course corrections in a year that might hold more than the usual number of surprises."

Forecast 84: A view from the executive suite



Source: McGraw-Hill

Great expectations!

Most participants in an NAPM survey predict improvement in the 1984 economy.

Purchasing executives are looking at the economy through rose-colored glasses. Some longterm concerns are being expressed about price increases and high interest rates. But the overwhelming majority responding to the National Association of Purchasing Management Business Survey Committee's annual forecast questionnaire are convinced that these problems won't be enough to upset the 1984 applecart.

Optimism about the next 12 months is typified by the fact that an eye-opening 86% of the survey respondents expect 1984 to be better than 1983. A miniscule 5% fear that things could get worse.

Contrast those findings to last year when the recovery was just about to get under way. At that time, the comparable figures were 59% "better" and 11% "worse."

Viewed from another perspective, optimists now outnumber pessimists by a 17:1 margin. The 86% voting for further gains represent the highest level since this question was first asked in 1957.

Price trends: This better demand will mean some acceleration in the inflation rate over the next six months. Some 85% now anticipate price increases in this time span—nearly three times the 29% who felt this way a year ago.

On the other hand, few seem ready to push the panic button. In the words of Charles T. Haffey, vice president of purchases for Pfizer and chairman of the NAPM committee, "the acceleration will be moderate."

And he backs this viewpoint with further survey findings. Haffey notes that (1) only 3% of the respondents see the price advances as severe, and (2) more than three quarters feel they'll be selective rather than across the board.

The Pfizer executive also doesn't think the acceleration will go on indefinitely. Citing comments by respondents, Haffey says his gut feeling is that the second half won't be that much different from the first half of the year as far as overall price boosts are concerned.

Operating rates: More than two-thirds of the responding firms still are operating in the 50-89% capacity utilization range. Another 7% are under the 50% level. True, rates are substantially higher than they were last year at this time. But, as Haffey puts it, "There is still some overall underutilization if you compare current readings to the averages of the past few decades."

Capital expenditures: PMs are surprisingly optimistic here. Nearly half are expecting increases in 1984—more than three times the 15% who expect their firms to cut back on plant and equipment spending during the next 12 months.

Inventories: Although no specific survey question was asked, the overall tone of the comments suggests that inventories—though undoubtedly going up in tonnage terms—will remain trim relative to production and sales. Haffey cites these reasons for the continuing caution: (1) ample supplies, (2) absorption of the Japanese lesson that it's possible to live on less, and (3) continued high interest rates.

And while the NAPM spokesman doesn't rule out a trend away from hand-to-mouth buying, he does not see any return to the 3-4 months protection of the early 1970s—despite a gradual stretchout in leadtimes.

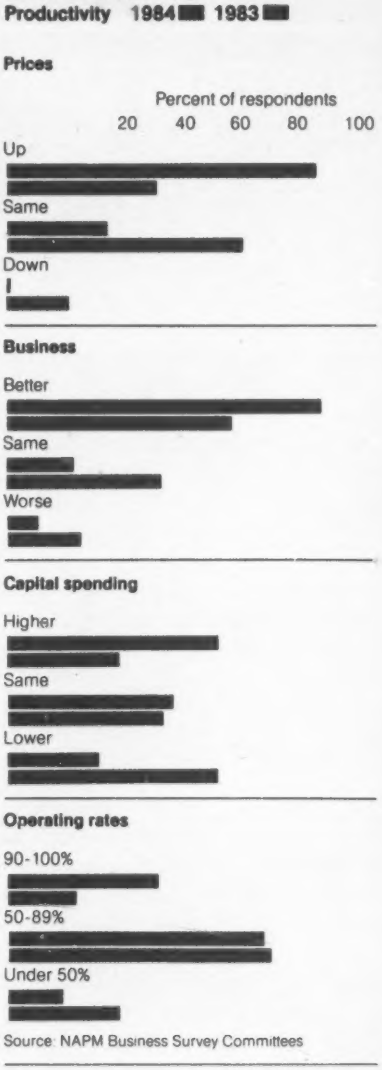
The year as a whole: Although few are worried about availability, many survey participants express concern about the huge federal deficit and accompanying high interest rates. Haffey, for example, feels it could eventually slow down the recovery.

Responding PMs seem to agree. The 77% who see increases in the economy over the first six months of the year (compared to the previous six months), dwindle down to 56% when the second half 1984 is rated against the first half of 1984.

Zero in on the year as a whole, and buyer attitudes can only be described as extremely positive. Over this relatively short time span, some 68% say they are basically optimistic—far outweighing the 9% who say they are worried or pessimistic.

In Haffey's words: "Not since 1978 have so many members of the committee been enthused about the coming year."

What a difference a year makes—NAPM views now vs. a year ago



Source: NAPM Business Survey Committees

Few big gains in prices

Double-digit increases next year will be few and far between, according to Data Resources, Inc.

Evidence is mounting that the current expansion won't be accompanied by the

wage-price inflation spiral that has marked the last two business recoveries. At least that's how DRI, preparing its latest quarterly cost-price outlook, sees things developing. Their forecast calls for industrial commodities (which exclude farm and food products) to rise 5.2% in 1984 and 6.7% over the following year. Considering the strong GNP growth gains anticipated over the period, the figures aren't bad.

Analysts at the Lexington, MA-based econometric consulting firm don't rule out a few double-digit increases along the way. But they hasten to add that such gains will be few and far between. Some product-by-product trends (see accompanying table for a more complete rundown) are projected along these lines:

Steel: More price increases are coming in the next two-three quarters. Producers are expected to use increased demand from the capital goods sector as justification for passing through increases in scrap, ore, energy, and labor costs. Look for the overall mill price index to rise 7.0 in 1984 and at about a 7.4% rate during the subsequent year (1985).

Nonferrous metals: Despite some slowdown in consumer goods, capital goods orders are on the upswing, thus maintaining the positive momentum of the aluminum industry while providing a much needed boost to copper and nickel. The aggregate nonferrous metals price index should show a strong 10.1% compound annual growth rate over the nearterm forecast horizon (third quarter 1983 to fourth quarter 1985)—with more robust increases occuring over the next four quarters.

Chemicals: Despite overall improvement, worldwide excess capacity and relatively weak energy input cost pressures will serve to restrain chemical price escalation through the near term. The aggregate industrial chemicals price index is projected to rise only 5.9% in 1984 and 4.7% in 1985.

Electrical machinery: Forecasts call for annual increases of 4.8% in 1984 and 6.3% in 1985. These moderate increases compare to average annual jumps of 9.0% in the 1980-82 interval.

Construction machinery: Prices will move up by spring as increased construction (especially repairs of roads and bridges and other nonbuilding construction projects) increases demand for machinery. Look for annual increases of 5.0% and 7.7% in 1984 and 1985, respectively.

Prices—Now through 1985
(Comparison of fourth quarter pricing)

Price increase (%)	1983/82	1984/83	1985/84
Raw materials, energy			
Industrial chemicals	1.9	5.6	4.6
Construction material averages	4.0	7.2	7.4
Processed fuels & lubricants	-1.9	4.1	6.4
Middle distillates	-13.2	5.6	6.4
Metals			
Machine shop products	5.1	7.6	10.2
Steel, carbon plates	5.0	8.4	7.9
Stainless plates	0.3	7.8	5.6
Mill shapes	4.2	13.9	9.0
Copper wirebar (domestic)	11.5	13.2	8.8
Structural metal products	-2.4	6.5	9.8
Components			
Batteries (primary)	-4.0	7.3	6.1
Electronic components	5.3	2.6	3.8
Hardware	2.9	6.3	4.9
Abrasive products	2.6	3.9	7.8
Fasteners	-1.1	6.1	10.6
Corrugated cartons	1.8	3.6	5.1
Truck tires	-4.1	7.2	5.9
Valves & fittings	1.0	7.6	7.8
Construction supplies			
Insulation board	3.4	5.1	5.7
Plastic constr. products	13.9	4.4	1.2
Bituminous paving mat'l	2.4	6.4	10.4
Sand, gravel, stone	2.1	4.0	10.4
Culvert pipe, reinforced	2.3	7.9	12.3
Machinery			
Construction equipment	2.3	6.6	8.2
Heating equipment	3.3	5.5	6.2
Railroad equipment	2.8	8.8	10.2
Mining machinery	0.8	4.4	10.6
Oil field machinery	-2.2	6.4	8.5
Trucks	-3.8	8.0	7.1
Metalworking equipment	1.9	8.0	8.3
Switchgear, switchboards, etc.	2.3	6.0	7.1

Note: Selected from more than 200 wage and price forecasts
Source: Data Resources Inc., Cost Forecasting Service

Solid growth in '84 economy

Despite significant industry variations, corporate leaders see healthy gains for this year.

Corporate bigwigs are bullish on Ameria—at least as far as the next 12 months are concerned. Not only do they see a fair-sized jump in both sales and capital spending, but they are also betting that price boosts will remain relatively low. The new estimates, based on a just-completed McGraw-Hill survey, can be summarized along these lines:

Price trends: The average price increase in 1984 is expected to be about 4.5%. But there could be some significant industry-by-industry variations (see chart). While double-digit (10-11%) increases are anticipated for steel and nonferrous metals, some other key subgroups such as automotive, fabricated metals, and instruments will show advances only in the 2-3% range.

Demand trends: The average corporate response suggests a strong 7%-plus gain. Again there will be substantial industry differences. The previously depressed steel industry is expected to boost tonnage by as much as 20%, in sharp contrast to petroleum products where continuing conservation will keep the 1984 gain down to near 1%.

Capital spending plans: Dollar averages will grow 9.4%. But if estimates for a 5.8% plant and equipment price increase are correct, the real gain will be somewhat smaller—3.4% to be exact. That's a big improvement over the past year (1983) when real capital spending declined by an estimated 2.5%.

Positive signs: Two developments could make 1984 better than the survey replies would seem to indicate. One is that with capital goods inflation running very low at the current time, prices may rise only 2-3%. Coupled with a 9.4% increase in earmarked dollar outlays, it would make for a healthy 6-7% increase in real spending.

And there is the distinct possibility that the survey may be undershooting the dollar outlay mark. This situation often happens when the economy is in a solid uptrend after a recession. In 1972, for example, the survey projected a 6.9% increase in new plant and equipment outlays. Yet when the dust finally settled, the increase was a more robust 10.7%. In 1977, when the survey estimated a 13% advance, the final figure was 15.5%.

But corporations will not have unlimited funds to spend. There are financial restraints. Balance sheets are improving. But they are still heavily weighed down with debt—particularly short-term debt. Interest payments still take up too much of the typical firm's cash flow. And though interest payments are declining, interest rates remain extremely high.

Implication: Proposed capital projects will have to promise a very healthy rate of return to justify borrowing longterm money at 12% or more.

More price indicators: A few additional words are in order on the projected price increases. For the most part, they are relatively moderate compared to the boosts that occurred during other recent business recoveries.

And the double-digit boosts anticiated for metals only represent a partial recovery from the huge declines of 1982 and early 1983. The point to keep in mind here: Even if these projected metal price hikes materialize, tags in most metal areas will still be significantly under their pre-recession peaks.

Another positive price omen: The growing percentage of capital spending being earmarked for automation and cost cutting. Last year 16.5% of the capital dollar in the manufacturing sector went for this kind of equipment. This year the figure will grow to 17.5%—and by next year it should be well over 18%.

Bright year ahead

Computer forecasters provide good news on the economic growth and price fronts.

The big econometric forecasting models are backing up what most purchasing managers, top sales executves, and business analysts are saying: That 1984 will be a darn good year—with (1) average annual growth actually topping 1983 rates and (2) price boosts still remaining in the relatively modest range.

A look at the accompanying summary table (a compendium of four of the nation's most prestigious models) suggests that things are looking better than previously anticipated.

Six months ago, for example, the 1984 real GNP increase (4-model average) was put at 4.8%. Now the figure has been revised upwards to 5.5%.

The same good news for price acceleration. The 1984 average increase in the GNP price deflator (the broadest gauge of all price yardsticks) is now put at 4.7%—significantly under the 6-month-ago estimate of 5.1%.

Look at producer prices, and the situation is similar. Specifically, the current 1984 projection, calling for a 5.0% increase, is somewhat below the 5.7% estimate made just six months earlier.

It's only when you get to consumer prices that some upward adjustment appears. The probable reason: higher food prices engendered by last summer's drought which occurred after the earlier forecast had been made.

What makes all these forecasts so believeable is that the four models—

Comparing econometric forecasts

Real GNP (% change)	'83	'84	'85
DRI	3.4	5.4	3.2
Chase	3.4	5.4	2.9
Wharton	3.5	5.9	3.7
Merrill Lynch	3.5	5.4	N.A.
Average		5.5	3.3

Industrial production (% change)	'83	'84	'85
DRI	6.5	9.9	3.8
Chase	6.5	9.8	3.8
Wharton	6.5	10.5	4.8
Merrill Lynch	6.5	9.4	N.A.
Average		9.9	4.1

GNP price deflator (% change)	'83	'84	'85
DRI	4.2	4.7	4.8
Chase	4.2	4.8	6.3
Wharton	4.2	4.6	5.5
Merrill Lynch	4.2	4.8	N.A.
Average		4.7	5.5

Producer prices (% change)	'83	'84	'85
DRI	1.4	4.9	5.1
Chase	1.4	5.1	6.9
Wharton	1.4	4.6	5.8
Merrill Lynch	1.5	5.5	N.A.
Average		5.0	5.9

Consumer prices (% change)	'83	'84	'85
DRI	3.2	4.9	4.8
Chase	3.3	5.2	6.2
Wharton	3.2	4.8	5.6
Merrill Lynch	3.2	5.3	N.A.
Average		5.1	5.5

Prime interest rate (%)	'83	'84	'85
DRI	10.8	10.3	10.8
Chase	10.8	11.0	12.5
Wharton	10.8	11.2	12.4
Merrill Lynch	10.7	10.8	N.A.
Average		10.8	11.9

Unemployment rate (%)	'83	'84	'85
DRI	9.7	8.2	7.9
Chase	9.6	8.3	7.9
Wharton	9.7	8.4	7.6
Merrill Lynch	9.7	8.4	N.A.
Average		8.3	7.8

which traditionally tend to differ among themselves—are pretty much in agreement this time around. In fact, there's less than half a percentage point difference between low and high 1984 GNP forecasts (5.4% versus 5.9%).

This surprising agreement also spills over into the price sphere. The range in 1984 GNP price deflator forecasts is actually less than that for real GNP—with only 0.2 percentage points separating the 4.6% low from the 4.8% high. Consumer prices show an almost-as-small 1984 spread—as forecasts vary only from 4.8% to 5.3%.

In the more volatile producer price sector, the models begin to show significant variation. The projected 1984 increases here, for example, vary from a low of 4.6% to a high of 5.5%. On the other hand, even this variation isn't all that great compared to differences of opinion noted in previous years.

But what about 1985? The models all seem to be pretty much in agreement here—suggesting some meaningful shifts in the overall business climate. All four, for example, indicate substantially smaller real GNP and industrial production gains.

The declines, according to model spokesmen, reflect both (1) the aging of the recovery which by then will be entering its third year and (2) new increases in already-high interest rates. The prime lending rate at that time, for instance, is expected to average in the 11-12.5% range—up about 1% from average 1984 levels and high enough to put a damper on both construction and marginal capital spending plans.

Some further modest price acceleration is also suggested for 1985. But again the accent should be on the word "modest." Keeping increases within bounds at that time will be (1) easing demand pressures, as gains in both real GNP and industrial production decelerate, and (2) relatively restrained labor cost pressures engendered by an unemployment rate that will be hard put to drop much under the 8% mark.

Buyers accent the positive

The outlook from our readers is optimistic. Meanwhile, they are keeping an eye on prices and leadtimes.

It's beginning to look more and more like another good year. That's the response from the vast majority of *PW* readers participating in our latest nationwide outlook survey. Prices will be rising at a somewhat faster rate than over the past year, and leadtimes are beginning to extend. But for the most part, purchasing executives say the problems will be manageable.

As one Pennsylvania-based buyer puts it, "Increases in industrial tags should remain within bounds. And while delivery times will almost certainly stretch, it's a small price to pay for what seems to be shaping up—at least for our company—as the best year since 1979."

And he's not alone in this appraisal. The survey results paint this basically bullish picture for the 12 months immediately ahead:

1984 price boosts: The average increase is put at just under 5%—with nearly three out of every four respondents estimating their 1984 increase in the 3-6% range. Equally significant, only a miniscule 2% see boosts rising at a double-digit pace.

Prices—1984 versus 1983: Some 83% of the respondents see some acceleration as unavoidable. The overwhelming majority feel the speedup will be quite modest. But the acceleration should be more pronounced by the second half (nearly four out of five expect July-December increases to come in at a faster clip than during the first six months of the year).

1984 demand: A hefty 84% of *PW* readers say the new year will be better for their firm than 1983. The voting is about equally divided between those anticipating moderate (1-4%) real growth and those hoping for more substantial (5% or higher) advances. And the outlook looks to be increasingly rosy as

How PW Readers view 1984

Source: PurchasingWorld

the year wears on. Four out of five respondents expect second-half 1984 GNP to be better than first-half GNP.

Inventories: Close-to-the-vest strategy is still the order of the day. Despite the expected demand improvement, nearly two out of every three purchasing executives hope to hold stocks at current levels. The remaining one-third split between those planning on additions and those determined to make still more cuts.

Delivery performance: Improving demand will take its toll. An overwhelming 79% expect some leadtime stretchout. But most of these respondents hasten to add that the stretchout will be from the very low waits that have prevailed through most of the just-ended year.

Areas tightening the most: Electronic components are number one on the list. Several PMs also voice some fears about aluminum and flat-rolled steel products. Other items receiving one or more votes include corrugated boxes, plastic resins, specialty pigments, petrochemicals, and bearings.

1984 problems: As suggested by all the above, prices and extended leads are areas of concern to a substanital number of buyers. But there are other areas which also will bear close watching. These include (1) fear of supplier failures (via Chapter 11 or Chapter 13), (2) reduced product mixes as suppliers eliminate specialty items, (3) poor quality and reliability, (4) worsening vendor services, (5) delayed reopening of mothballed supplier plants, and (6) high interest rates.

Several buyers also speak of the need to upgrade their price forecasting techniques. They note that this area will become increasingly important as supply and demand come back into better balance.

This will be a year of heavy collective bargaining, as the Bureau of Labor Statistics figures show. But the chances of major strikes appear slim because of high unemployment. Negotiations probably center on job security rather than on wage hikes.

Labor negotiations in 1984

PRELIMINARY

Month	Expirations and/or scheduled wage reopenings.		
	Agreements	Workers covered (thousands)	Principal industry
January	36	88	Petroleum refining
February	25	69	
March	68	196	Construction
April	114	292	Construction
May	103	270	Construction
June	122	738	Railroads, construction, maritime
July	34	164	Food stores
August	32	88	...
September	40	930	Automobiles, bituminous coal
October	29	80	...
November	21	56	...
December	15	49	...
Total	636	3,005	...
All bargaining units	1,630	7,926	

1/ The total is less than the sum of the parts because three contracts have both a reopening and an expiration in the year

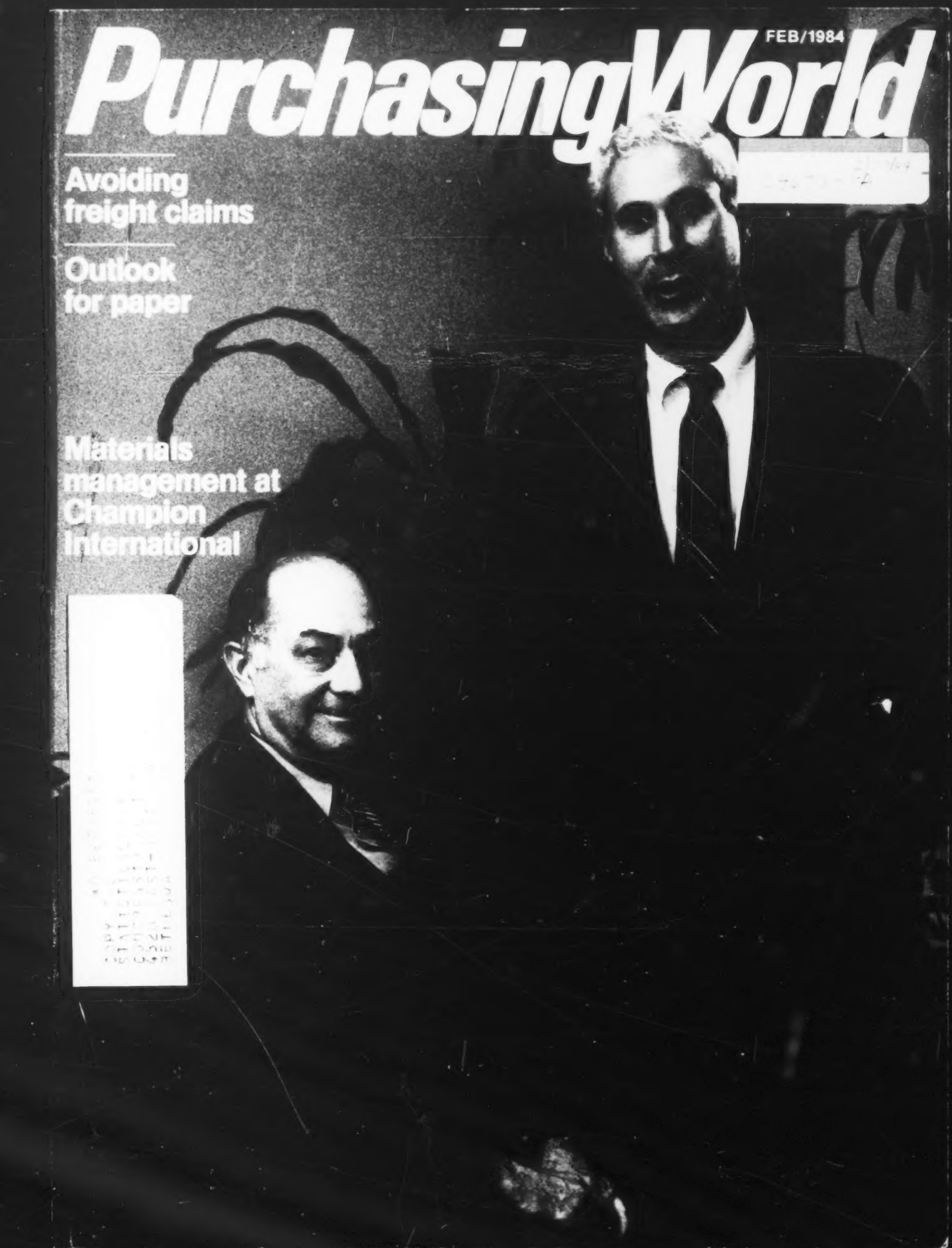
Purchasing World

FEB/1984

Avoiding freight claims

Outlook for paper

Materials management at Champion International



PurchasingWorld

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* Metalworking issues

PW PREDICTS

Energy

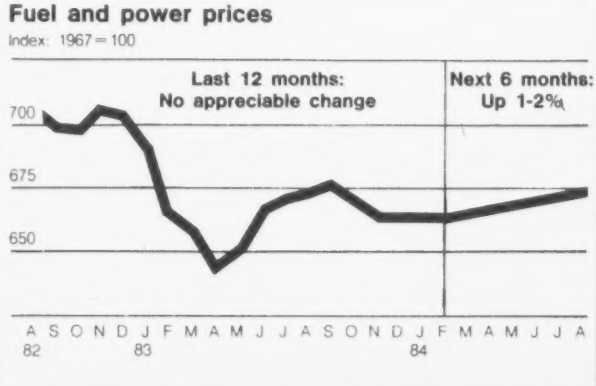
CURRENT SITUATION: Prices continue to take a breather—remaining virtually unchanged for over six months. Much of the favorable news stems from the continuing oil glut. But even heretofore fast-rising natural gas and electricity have slowed down—with these latest year-to-year changes: natural gas (-1%) and electricity (+4%). **Credit the pause to ample supplies and continuing conservation.**

DEMAND: The new year will finally see some gains. But they'll be quite modest—with the overall advance put at only 3.5%. **The most solid 1984 advance will be in natural gas** where last year's 5.5% decline will give way to about a 4% gain. **Coal should rack up a similar increase.** Oil usage will also be up after five years of decline. **But the gains will be small** (only about 2.5%)—as a fractional falloff in gasoline blunts 4-5% increases in middle distillates and residual fuel oil.

SUPPLIES: It looks like clear sailing—barring any big new Mideast blowup. Indeed, OPEC producers will have to stop cheating on production quotas if another big oil glut is to be avoided. Adding to the rosy supply picture are still-increasing non-OPEC oil supplies. **Also reassuring is the fact that current natural gas supplies are estimated to exceed demand.** And in the coal sector, 1984 production will be just on a par with expected demand—**with a lot of unused capacity still waiting.**

PRICE OUTLOOK: Supply-demand projections suggest a continuing noninflationary trend. Right now, it's hard to make a case for more than a 3-4% increase in energy costs for 1984 as a whole. True, electricity boosts could be somewhat higher (5-6%). But this should be offset by moderate hikes in such other key areas as coal (4%), petroleum-based products (1-3%), and natural gas (1-2%). **In any event, energy tags should again lag the overall U.S. inflation rate.**

Fuel and power prices



competition from cheap imports. Ditto, (1) diammonium phosphate (where Gulf quotes are in the $200-210/ton range—up more than $50/ton from a year ago) and (2) potash which now commands $103/ton at Great Lake ports.

Copper

Still no signs of a sustained rally. Most of the softness can be traced to still-rising inventories (combined Comex and LME stocks now total over 850,000 tons). Adding to the glut has been (1) a stepup in U.S. output and (2) less-than-expected demand gains (reflecting sluggishness in capital goods which accounts for more than half U.S. consumption). To be sure, the latter is beginning to turn around. But it will take time to bring stocks down enough to support a significant price rise. Indeed, it could be midyear before prices even rise up to 75-80¢/lb—a level that still would be well below most producers' breakeven points.

Computers

All signs point to another banner year. Biggest demand gains, according to the Computer and Business Equipment Manufacturers Association, will again be in the microcomputer areas where some 877,500 units are expected to clear the market (up a resounding 35% from 1983). Smaller gains of 23% for minicomputers (to 60,570 units) and 5.8% for mainframes (to 10,400 units) are also anticipated. While CBEMA does not forecast prices, **PW** talks with other industry spokesmen suggest continued competion—with perhaps another 5-10% decline in the personal computer sector before year is out.

1984 computer demand

Percent increase over 1983

Lead

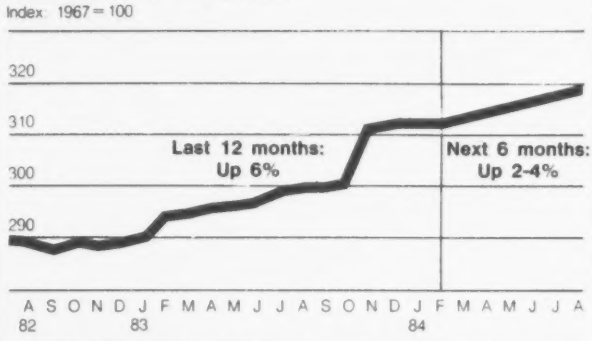
Cold weather—upping battery demand—has helped push prices up into the mid-to-upper 20s range. But that should be it as (1) imports increase and (2) demand from battery makers soon begins to tail off seasonally. Long-term growth also leaves a lot to be desired—with only fractional global increases anticipated over the next five years—as the lead-in-gasoline phaseout spreads overseas and smaller batteries require less metal (only 18 pounds now versus some 25 pounds per battery just a decade ago).

Phenolic resins

First quarter prices are up anywhere from 1-5¢/lb, depending on product. Behind the firming: an increase in basic phenol costs and improving demand from the auto and construction markets, which together pushed 1983 demand up by more than

PW PREDICTS

Building materials prices



CURRENT SITUATION: Prices have been edging up, but not nearly as much as suggested by the big 50%-plus increase in 1983 housing starts. That's not to say that there haven't been some big hikes—notably in gypsum products and softwood 2 x 4s. **But by and large weakness in other areas, such as cement and structural steel, have kept the overall advance over the past 12 months to a relatively modest 6%.** Also holding down averages has been the rather lackluster performance in nonresidential activity.

DEMAND: A modest improvement is anticipated for 1984—as nonresidential construction rises about 6% in real terms, and housing remains on a high plateau. **Softwood lumber** could be up about 6-8%. **Gypsum products** can also look for further gains. **Cement** consumption could rise by a substantial 10%. **Structural steel** should follow a similar pattern. **Building paper,** which was up a hefty 50% in 1983, should record a further 15% gain in 1984.

SUPPLY: No nearterm problems are anticipated. There is certainly ample saw mill capacity. And the cement industry—if it manages to reach it's 1984 projected level—will still be operating at only 87% of its potential. The same is true for such other key materials as flat glass, insulation, plastic products, brick, roofing, paving, and structural steel items. **About the only item in somewhat snug supply is gypsum.**

PRICE OUTLOOK: Count on a 2-4% increase over the next six months—with the overall 1984 gain likely to fall in the 5.5-6.5% range. The key factor in holding tags in check will be increases in production. Some of the 1984 expected advances: softwood lumber (2-4%), flat glass (only 2%), refractories (2-4%), cement (6-7%), asphalt roofing (only 1.5-2.5%), building paper (5%), paints (5-6%), and gypsum (10% or higher). Structural steel tags will also be up. But because unrealistic lists are being lowered, the increases may not show up in official government indexes.

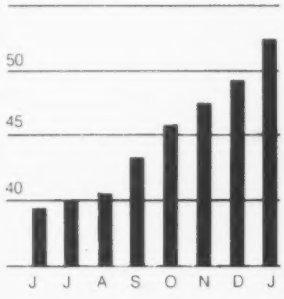
ABS plastics

Count on paying about 3¢/lb (or 3%) more for molding grades. Behind the advance: Higher feedstock costs and booming demand which could be up another 10% this year (on top of last year's big 40% jump generated by the recovering transportation, construction, and appliance industries). Even so, there is still ample capacity, with the industry currently operating at well below its nameplate potential (727,000 metric tons per year). The point to keep in mind: That's far above the 460,000 metric tons which cleared the market in 1983.

Zinc

Recent advances into the 50¢/lb-plus range were not unexpected. Much ofthe strength reflects good demand (up 7% globally in 1983)—reflecting increased buying by the auto industry both in the U.S. and Germany. And the gains are likely to continue—as other areas jump back into the plus column. Thus U.S. shipments of both hot-dip and electrolytic galvanized sheet to the nonautomotive market could rise as much as 13% in 1984 (to 5.35 million tons). All told, this suggests further price advances, with the metal expected to edge up close to the 55¢/lb level by spring or early summer.

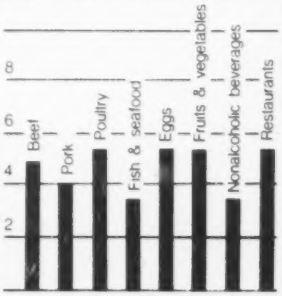
Zinc
¢/lb



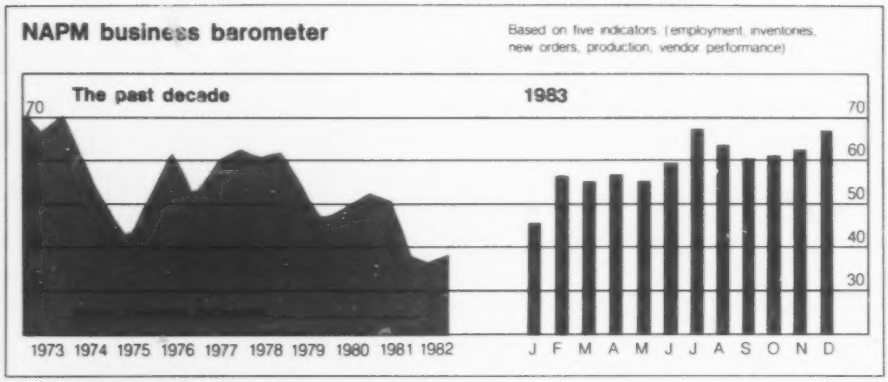
Food

Count on about a 4-7% increase in 1984 average tags—not all that bad considering last summer's drought and recent frigid Sunbelt weather. Some of the likely year-to-year average increases: beef (5%), pork (4%), poultry (5.5%), fish and seafood (3.5%), eggs (5.5%), dairy products (0.5%), fruits and vegetables (5.5%), cereals and bakery products (5.5%), and nonalcoholic beverages (3.5%). Eating out should cost a bit more—about 5.5% more to be exact.

1984 food prices
Percent increase over 1983



BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1983
70
60
50
40
30
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Solid growth seems assured

The trend is still up—with more and more industries now sharing in the recovery which began early last year.

On the other hand, it would be unrealistic to expect a continuation of recent, large, overall gains—some of which have run upwards of 7% on a seasonally adjusted real GNP basis. Factors which may slow down growth (something many economists feel is a good thing) would have to include (1) the big and still-growing trade deficit, (2) an enormous budget deficit, and (3) continuing high interest rates.

True, these factors were present in 1983, too. But they can now be expected to carry a bit more weight as the recovery goes into its second year.

Given all these restraints, most analysts are now talking in terms of 4-5% annual rates of advance through summer and into early fall. This, in turn, suggests that leading business barometers (now at peak levels) will begin to edge lower—though they will certainly continue to remain solidly in the plus column.

In any event, as noted earlier, economists aren't all that concerned. A good many of them, for example, say a deceleration in the rate of growth will slow down any inflationary pressures that might develop and therefore prevent the "overheating" that has aborted other recent business recoveries."

Result: continuing optimism about the new year—something which is being reinforced by the relatively tight inventory positions that continue to prevail. It's hard not to be encouraged, for example, by the fact that stocks in real terms have not grown at all over the past nine months.

Construction also promises to remain on a high plateau. Construction awards (a lead indicator of activity a few months hence) remains relatively unchanged—about 10% above a year ago (center chart).

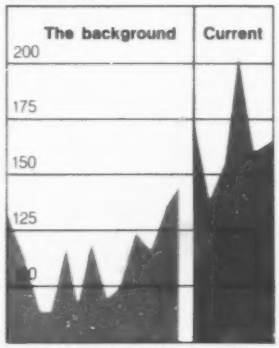
There are still other signs of basic business health, too. For one, capital spending may finally begin to carry its own weight. Thus machine tool orders, while hardly robust compared to the levels of a few years back, are now averaging considerably above late-1982 and early-1983 levels (see first leading indicators chart).

One key segment of the construction market (housing) also looks to have another good year—with starts coming close to 1983's strong 1.7 million units. Factors behind the optimism here include (1) more confident consumers, (2) new and less expensive types of mortgages, and (3) anticipatory buying on fears that mortgage rates could start to climb again.

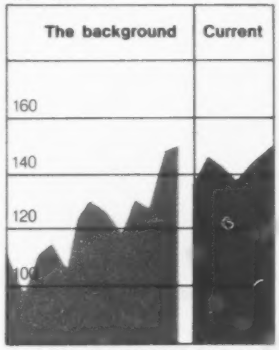
But perhaps the most solid indication of contin-

Leading indicators

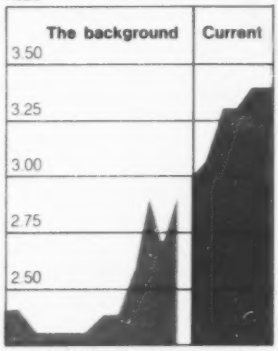
1. Machine tool orders
Millions of dollars



2. Construction awards
Index: 1977 = 100



3. Factory overtime
Hours



ued growth is the drop in unemployment. The jobless rate has dipped down close to the 8% mark—a fall of some 2.5 percentage points from late November 1982 peaks.

More important, there are signs of even further small jobless declines. Factory overtime has been on the rise (last chart) and help-wanted advertising continues its strong upward trend. The point to keep in mind: Both these trends have traditionally been associated with a declining unemployment rate.

Payment performance best in years

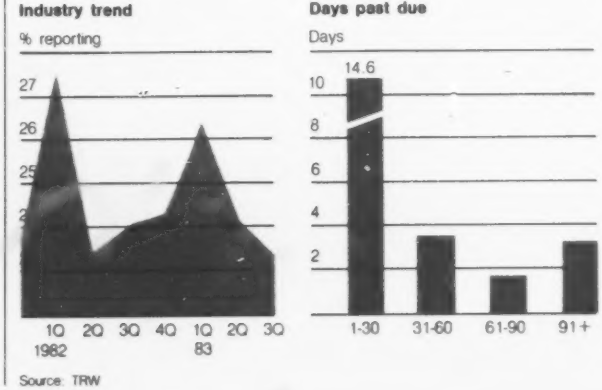
The typical firm is paying its bills somewhat faster these days.

That's not to say that delinquencies still don't constitute a fair amount of overall billings. Indeed, some 23.5% of American industry still pays its invoices after the due date. On the other hand, that latest figure represents nearly a three-percentage-point decline from early 1983 when the comparable delinquency reading was close to 26.5%.

The figures are based on a comprehensive ongoing survey by TRW's Information Services Division. Dr. Wynn B. Bussmann, who directs the operation, notes that the improvement is due to a combination of continued economic recovery and the healthier financial condition of many companies. He says that these factors have pushed the overall payment performance to a three-year high.

Bussmann adds that the trend to fast payment is expected to continue in 1984 as (1) cash flow improves, (2) lower inflation rates reduce the amount of illusory paper profits, and (3) slightly lower interest rates cut down on the inclination to drag out payments.

Past-due bills

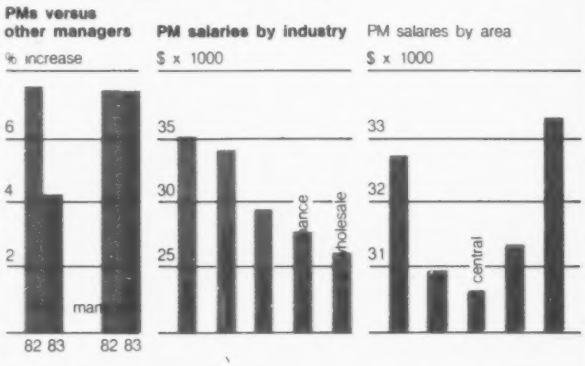


Source: TRW

PMs lose ground in salary levels

Purchasing managers did not fare all that well salarywise in 1983—both when compared to the previous year and to the increases other middle managers managed to get.

How PM salaries stack up



Source: Administrative Management Society

A new survey by the Administrative Management Society tells the story. Figures suggest, for example, that the typical PM pay boost last year came to only 4.2%—some 3.5 percentage points under the average 7.7% increase received the previous year.

What makes matters even worse is the fact that the average boost for some 20 middle manager categories did not decline at all—with the typical hike for both 1982 and 1983 clocked in at 7.6%.

On a more optimistic note, a spokesperson for the AMS says that a sudden deceleration in one year is generally followed by a sharp bounceback the next. Implication: 1984 PM salary increases could be fairly substantial.

In any event, the details (summarized in the chart) indicate that the average purchasing manager salary in 1983 came to around $31,900—but with considerable variation, depending on the industry involved. At the upper end of the range, for example, were utility buyers, who received an average of over $35,000 a year. Those working in retail and wholesale establishments received just a bit over $26,000. The typical manufacturing PM fell in the middle, earning about $32,400 a year.

CURRENT PRICES

Price picture is still encouraging

A full year of improving business activity has yet to give industrial prices any major upward jog.

To be sure, the near-level reading of Uncle Sam's comprehensive price index over the past few months may be a bit over-optimistic—for this government yardstick may well be failing to pick up some of the smaller discounts now being offered by many vendors.

Nevertheless, the figures have to be regarded as encouraging—and a far cry from other recent busi-

ness recoveries when the industrial average began to move up strongly within a few months of upturn. Equally significant is the fact that the general lack of upward momentum seems to be across the board.

This is certainly true in the energy sphere where actual declines over the latest reported month were noted in crude petroleum, gasoline, LPG, residual fuel oil, and even electric power. And while natural gas is again moving up, the advance is relatively modest.

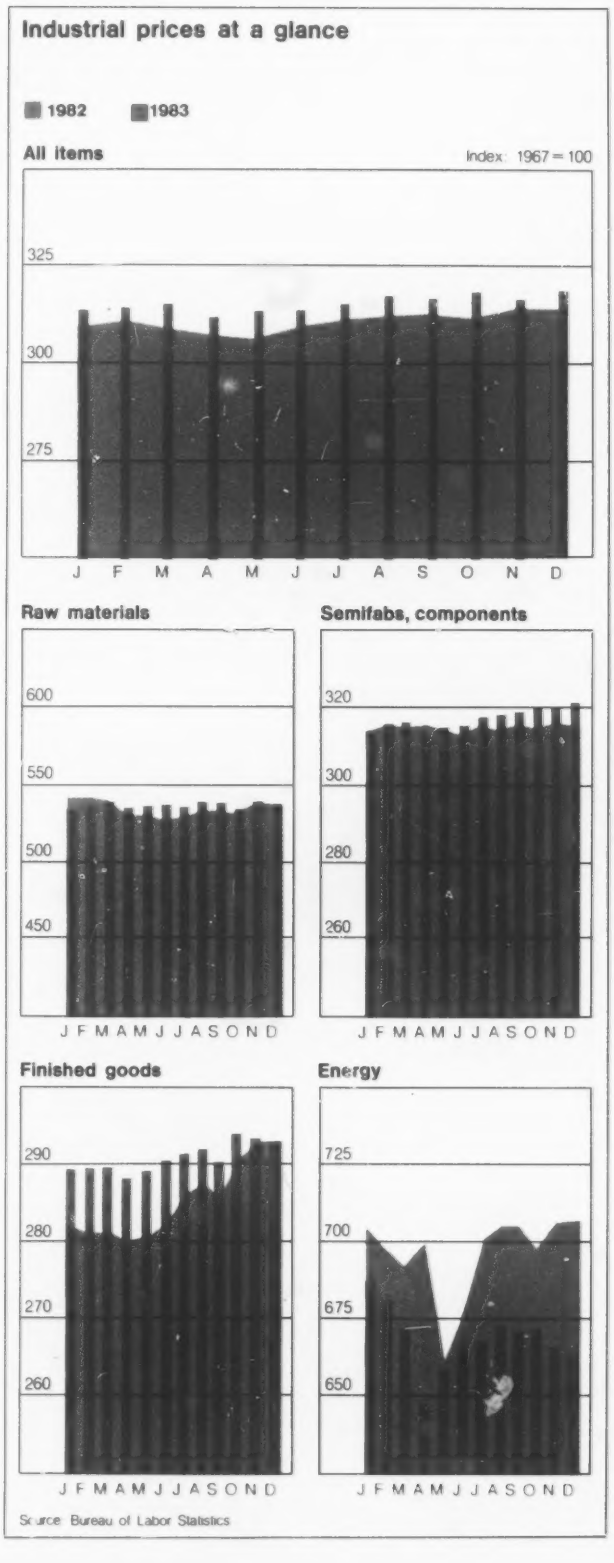
The same easiness appears in other key commodity areas. Industrial chemicals, for example, have again edged lower—as did inedible fats and oils, manmade fibers, and crude natural rubber. These decreases helped offset boosts in such other material areas as plastic resins, grey fabrics, and paperboard.

More highly fabricated

This month's breakdown

	Latest level (December)	% change from: Month ago	Year ago
Bearings	333.2	0.0	-0.6
Bolts, nuts, etc.	271.4	0.4	0.3
Chemicals, inorganic	290.6	-0.1	-4.2
Chemicals, organic	371.5	-0.5	3.0
Concrete products	303.7	0.0	1.7
Corrugated cartons	249.4	0.4	2.9
Cutting tools, small	278.9	0.0	0.7
Electrical instruments	274.8	0.0	7.9
Electric lamps (bulbs)	331.4	1.3	11.4
Electronic components	190.0	1.6	7.4
Fans and blowers	335.8	0.0	-0.3
Foundry and forge products	353.1	0.1	2.0
Fuel oil (residual)	1184.7	-1.3	3.6
Furniture, commercial	290.5	0.1	4.3
Gasoline	587.6	-2.0	-10.0
Glass, flat	230.0	0.0	2.1
Glass containers	351.0	0.0	-1.8
Gypsum product	321.4	2.4	26.6
Hand tools	351.0	0.2	1.4
Hand tools, power driven	220.9	0.0	-0.6
Industrial furnaces	369.1	0.2	3.5
Integrating and measuring instruments	225.6	0.4	5.0
Internal combustion engines	342.7	0.0	1.8
Lubricating oil	788.3	0.7	-3.9
Lumber millwork	308.5	0.1	7.7
Material handling equipment	286.5	0.2	0.1
Metal containers	338.2	0.0	3.0
Metal mill shapes (nonferrous)	315.6	1.6	3.7
Metal tanks	303.9	-0.4	-2.3
Motors and generators	336.0	0.1	5.9
Motor trucks (10,000 lb and under)	280.0	-0.3	1.7
Office and store equipment	154.9	0.1	1.2
Paperboard	259.5	0.6	6.3
Paper boxes and shipping containers	252.1	0.1	1.4
Paper office supplies	227.4	0.0	0.3
Paint	264.9	0.2	0.1
Plastic resins	298.3	0.6	5.6
Precision measuring tools	244.4	0.0	1.2
Pumps and compressors	346.3	0.3	-0.6
Refractories	354.3	0.0	5.1
Rubber belts and belting	334.1	2.2	3.1
Scales and balances	228.3	0.0	0.3
Steel products	356.4	0.1	3.8
Switchgear	269.3	0.0	1.5
Textiles, synthetic fibers	158.2	-0.8	-0.9
Textiles, gray fabrics	151.7	1.0	5.9
Tires and tubes	243.0	0.1	-5.1
Transformers and power regulators	223.9	0.4	1.6
Welding equipment	273.2	0.3	-1.9
Wire and cable	201.5	-0.7	2.1

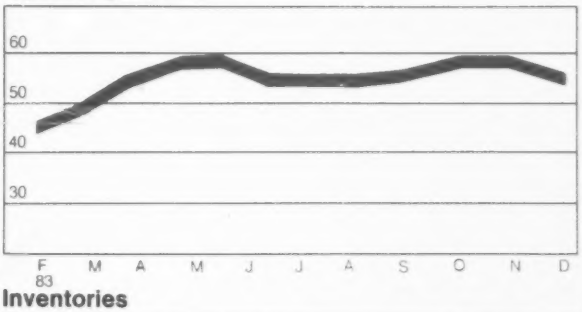
Industrial prices at a glance



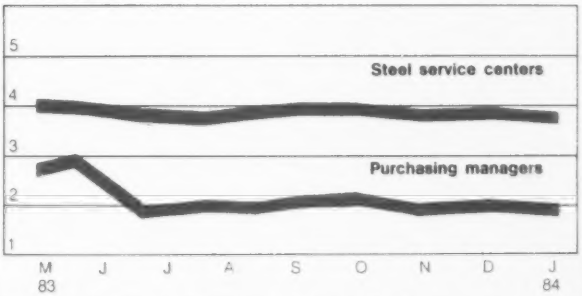
Source: Bureau of Labor Statistics

Steel

Operating rates



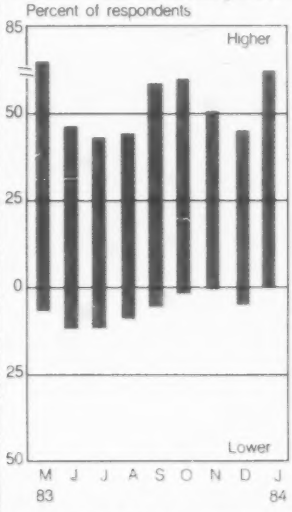
Inventories



Demand (over the next 3 months)

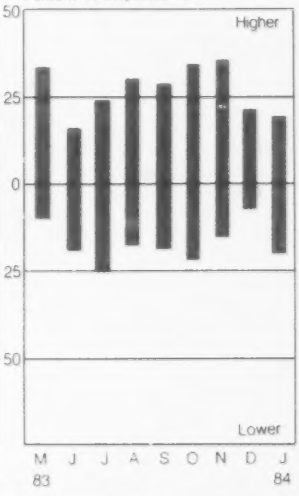
Service center incoming orders

Percent of respondents



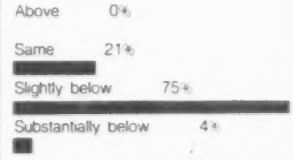
Steel buyer purchases

Percent of respondents

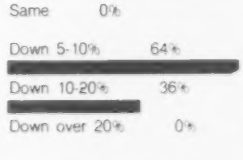


Import prices (foreign vs. domestic)

Steel buyers



Service centers (carbon steel)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

lines, on the other hand, do seem to exhibit a somewhat firmer trend. Last month, for example, increases were noted in mining machinery, transformers, railroad equipment plastic machinery, machine tool parts, electronic components, and rubber belts and belting.

Price analysts, however, hasten to add that these increases in more highly fabricated items were generally quite moderate. And while they do feel the trend will lead to some first-quarter 1984 rise in overall industrial quotes, they say the increase will be small—probably only about 3-4% at annual rate.

STEEL SCENE

Markets firming as demand improves

The steel industry is starting 1984 on a relatively firm note—with both buyers and steel service centers anticipating improved ordering over the next few months.

Over recent days, for example, the number of purchasing managers predicting increased steel receipts has outnumbered those plannning on cutbacks. The same is true of distributors, where some two out of three Steel Service Center Institute (SSCI) members now see increases in business over the next three months—with not a single respondent looking for any dropoff in incoming business.

This brighter outlook is seconded by Andrew G. Sharkey, SSCI president, who now feels service center sales will approach 19 million tons in 1984. If the gain materializes, it would represent a hefty 19% jump over the more than 16 million tons shipped last year. That's also a whopping 33% over 1982's extremely low 14.3-million-ton level and a hair's breadth within the peak 19.1 million tons shipped back in 1979.

Also indicative of optimism is the growing tendency toward more steel service center capital spending. An informal survey of leading distributors, for example, suggests that most are planning on some additional increases—with a few dubbing the planned advances as "significant."

That's not to say that service centers are problem-free. Sharkey remains nervous about foreign competition. He notes, for example, that Brazilian sellers in recent months have been offering slit coil to service center customers.

Prices are, of course, the major incentive for such importing. And the advantage is still quite impressive—with more than one out of every three distributors saying that they are getting a 10%-or-higher price break on imported carbon steel. A very similar 37% report the same advantge over comparable domestic metal in the stainless steel category.

And the situation isn't expected to change. Specifically, 17% of those

queried say they'll probably be more dependent on foreign steel over the next six months (versus only 10% of surveyed centers who contemplate less dependence).

This tendency toward more reliance on imported metal is also echoed by steel buyers where 17% say they expect to be more dependent versus only 13% who feel they'll be cutting back on imported metals.

Again the reason is the same—price. Some three out of every four PMs, for instance, note that foreign mills offers steel "slightly below" comparable domestic quotes—with another 4% deeming the price advantage as "substantial."

Some other key findings of the latest buyer and steel service center surveys:

■ **Inventories:** They continue to edge lower (see chart). But from here on in there should be a levelling off—with those planning on future decreases pretty much balanced out by those who are now thinking in terms of increases.

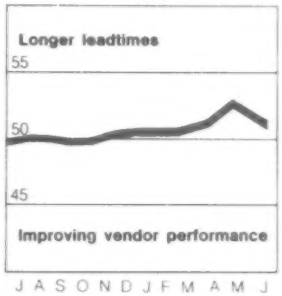
■ **Availability:** Spotty problems are anticipated. The products most often mentioned are coated sheets, cold-rolled sheets, and stainless. Most respondnets, however, add that the problems will probably be relatively minor—with no substanital bottlenecks currently anticipated.

■ **Speed of payment.** Some 90% of steel service center customers are paying on time—well above the 79% low of last spring. Steel buyers report much the same for their firms' customers—with the 66% on-time reading up significantly from the 42% low of early last year.

Monthly procurement status report

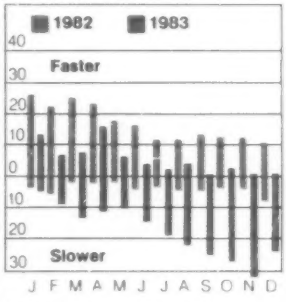
Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance

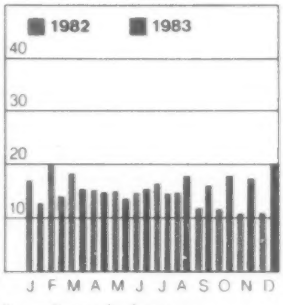


Delivery performance

Percent reporting deliveries

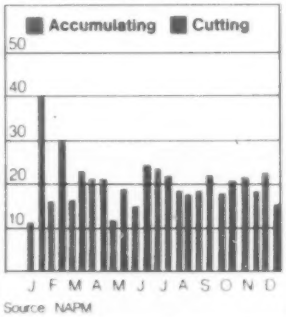


Forward commitments



Inventory strategy

Percent of respondents



Source: NAPM

PROCUREMENT STATUS

Leadtime increases continuing

Waiting times continue to increase. But the extra delays (except in a few cases, such as electronic components) are still relatively moderate.

Indeed, American industry seems to be doing a better-than-might-have-been job in keeping extensions to a minimum. Part of the explanation lies in the fact that there has been plenty of excess capacity around to pick up the slack. Another factor has been the reluctance on the part of buyers to order more than is just barely necessary to keep up with expanding production needs.

The latter shows up most clearly in PM inventory trends. Despite higher activity, only 23% of purchasing executives queried by the NAPM Business Survey Committee say they are now adding to stocks—not all that many more than the 16% who say they are still cutting back.

Another indication that no one is pushing the panic button comes from the number of buyers committing 90 days or more in advance. While the current 20% reading is up a bit from previous months, it's still nowhere near the high percentages prevailing during the last big recovery.

Still another sign that things are still under control: The number of PMs reporting slower deliveries (24%) is under the 27% and 33% figures of the two previous months.

But perhaps the best indication of a "no sweat" situation is the surprisingly slow creep up in *PW*'s exclusive leadtime index. This key barometer of delivery delays remains at 51—the same level of the past few months. That's only one index point above the neutral 50 level and far under the mid-50 readings that prevailed during the previous two business upturns.

Leadtimes and availability

Chicago: 1A mixed picture in steel. Reading down (in weeks) are c-r sheets (8-9), and light plates (2). But up are h-r sheets (4-5), heavy plates (4) and h-r bars (3-4). Some extension in softwood sheathing (2) and softwood plyform (2-3). Ditto, on electrical materials (3-4) and motors (2-3). Allocation on some semiconductors.

Cleveland: Pretty much of a standoff here—with these typical leads (in weeks): alloying materials (on demand), glassines and greaseproof papers (4-5), softwood and hardwood lumber (3), skids (3), waterproof papers (5-6), plastic shrink film (3), strapping (2-3), corrugated (3), polyethylene and PVC (2-3) and aluminum (12).

Los Angeles: Some stretchouts (to these new weekly waits) on copper tubing and fittings (5-6), semiconductors (22-36), and connectors (15-17). But coming in a bit are grey iron castings (6), cardboard cartons (3-5), stainless steel (8-10), custom storage tanks (6), wire and cable (7-9), printed circuit boards (8-10).

BUSINESS DATATRAK

Houston: Modest improvement is reported in cast steel valves—with new weekly waits as follows: 0-13 for 150-600 psi and 4-26 for 1500 psi and up. Remaining unchanged are mill steel (4), forgings (4-6), MRO items (3), electric and electronic components (8), air compressors (4-6), valves and fittings (0-1).

Philadelphia: Extensions are noted for such electronic components as linear ICs (to 20 weeks), T-square ICs (30), and low power Shotky devices (30). Modest increases, too, in steel items—with these new, higher weekly levels: hex bar stainless (10), hex shape carbon bar (14), stainless round coils (12), carbon sheet (8-10).

Pittsburgh: Few major changes over the past month. A sampling of current waits (in weeks): multiwall bags (6), corrugated boxes (3-4), folding boxes (3-4), standard steel drums (1), plastic packaging material (2-3), lumber (3-4), steel strapping (2-3), coil coating paint (4), polyethylene and PVC (5), and zinc (6).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	9	7	7
C-R Sheet (Chgo)	8½	10	10
Plate (Phil)	10	6	4½
Plate (Chgo)	4	3	2½
Reinforcnd (Hous)	6	6	6
H-R Bars (Phil)	4½	4½	4½
H-R Bars (Chgo)	3½	2½	2½
Cold-Drawn Bars (Phil)	4½	4½	4½
Galvanized (LA)	11	11	4½
Galvanized (Chgo)	7	7	7
Structurals (Chgo)	2½	2½	2½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	6
Grey Iron Castings (LA)	6	6½	10
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	7	7	7
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14	14	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	9	9	8½
ICs (Linear) (Phil)	20	11	11
Motors (Phil)	21	21	21
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10½	10½	7
Relays (Chgo)	15	15	15
Resistors (Chgo)	10	10	10
Resistors, Wirebound (Phil)	9	9	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	1/5	1/5	1/5
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4½
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Clev)	2½	2½	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Clev)	2½	2½	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2½	2½	2½
PVC Resin (Pgh)	4	4	4
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Clev)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	4	4	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	11
Aluminum Plate (Chgo)	9	9	9
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	14	14	11
Brass Castings (LA)	7	7	8½
Brass Rods (Chgo)	3½	3½	3½
Brass Sheet (Chgo)	9	9	8
Brass Tube (Chgo)	9	9	8
Copper Fittings (LA)	5½	5	5½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	5	6½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	6	6	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	6	6	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	12	12	12
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	52	52	52
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	½	½	½
Fasteners (LA)	4	4	4
Fasteners, Std. (Phil)	2	2	3½
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	30
Heat Exchangers, Hi-pressure (Hous)	21	21	43
Insulation Mat'l. (LA)	7	7	10
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2	1	1½
Pumps (Hous)	39	39	4l
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	8	8	8
Welding Supplies (Hous)	5	5	5